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FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE
DEVELOPMENT

Studies in Financial Systems

No 26

Financialisation and the Financial and Economic
Crises: The Case of South Africa

Susan Newman

Financialisation and the Financial and Economic Crises: The Case of South Africa

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Abstract: This paper provides an overview of some of the long-run changes in the relationship between the financial and non-financial aggregate sectors of the South African economy. In particular the paper considers the impact of financialisation on capital investment, consumption, inequality and the capital account. The growth trajectory of the apartheid and post-apartheid periods are considered. It is argued that the nature and form of financialisation that has taken place in South Africa is conditioned by the nature of industrial and financial developments before 1994.

Key words: distribution of income, inequality, finance-dominated capitalism, financialisation, industrial development, South Africa

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Acknowledgements: This paper is part of the results of the project Financialisation, Economy, Society and Sustainable Development (FESSUD). It has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under

grant agreement n° 266800. This work draws in part from previous research conducted jointly with Samantha Ashman. The Author would like to acknowledge the research assistance provided by Uyabongeka Walaza and Gerald Mfongeh and the valuable comments made by Gilad Isaacs on an earlier version of the draft.

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Data Sources

BFA McGregors Database

Quantec, South Africa

South Africa Standardised Industry Database (SASSID)

South Africa Reserve Bank Quarterly Bulletin (SARB Quarterly Bulletin)

National Credit Regulator (NCR)

National Income Dynamics Survey (NIDS)

World Bank Development Indicators

Introduction

This paper outlines some broad changes in the relationship between the financial and real sectors of the South African economy in order that experiences in South Africa can be compared with other country case studies covered in work-package 3. Of the 15 case studies covered in the work-package, South Africa is one of three outside of Europe (the others being the US and Japan), it is the only case study of a country from the Global South and the only 'developing' economy. In this way, the evolution of the relationship between the financial and the real sectors of the economy may not obviously follow one of the four ideal types of economic development identified by FESSUD in the lead up to the crisis.

At the same time, South Africa is not typical of African or other developing economies. In per capita income terms, South Africa fits into the category of a middle income country, although this masks the extreme levels of inequality and incidences of poverty that have emerged out of the legacy of apartheid and the form of economic development that has occurred since political liberation in 1994. South Africa is one of the most unequal societies in the world, rivalled only by Brazil. Also, owing to the particular nature of industrial and economic development under apartheid, South Africa has a financial sector that is extremely large in relation to the size of the economy and of the level of development and sophistication to rival the financial sectors of advanced economies (see table 1), at the same time, around 42 per cent of the population is without access to formal financial services¹.

This paper presents some key financialisation indicators across the areas of financialisation and distribution, financialisation and consumption, financialisation and investment in the capital stock, and financialisation and the current account to aid comparison across country case studies. In addition, specificities of the South African growth trajectory and experience of financialisation have been teased out. While a global process, the form that financialisation has taken in South Africa and

¹ The figure of 42% was calculated using the Finscope 2013 figure for financial inclusion (30.7 million) and Statistic South Africa's mid-term estimate for population size in 2013 of 53.2 million.

its implications on distribution and unemployment is conditioned upon the specific nature of industrialisation and economic development that extends further back in time than the era of financialisation often identified as beginning around 1980.

Table 1 Financial market indicators for South Africa and selected country groupings for 2009

Country/country group	South Africa	Median for upper middle income countries	Median for high income countries	United States
Bank deposits to GDP	0.67	0.55	0.85	0.83
Liquid liabilities to GDP	0.46	0.55	0.84	0.77
Deposit money bank assets to GDP	0.95	0.53	1.18	0.73
Other financial institution assets to GDP	1.18	0.07	0.07	1.74
Private credit by deposit money banks and other financial institutions to GDP	1.74	0.52	1.08	2.19
Stock market capitalization to GDP	3.38	0.78	1.19	1.52
Ratio of bank credit to bank deposits	1.29	0.93	1.09	0.75
Life insurance premiums to GDP	0.12	0.02	0.04	0.05

(Data source: World Bank Financial Development Database 2013)

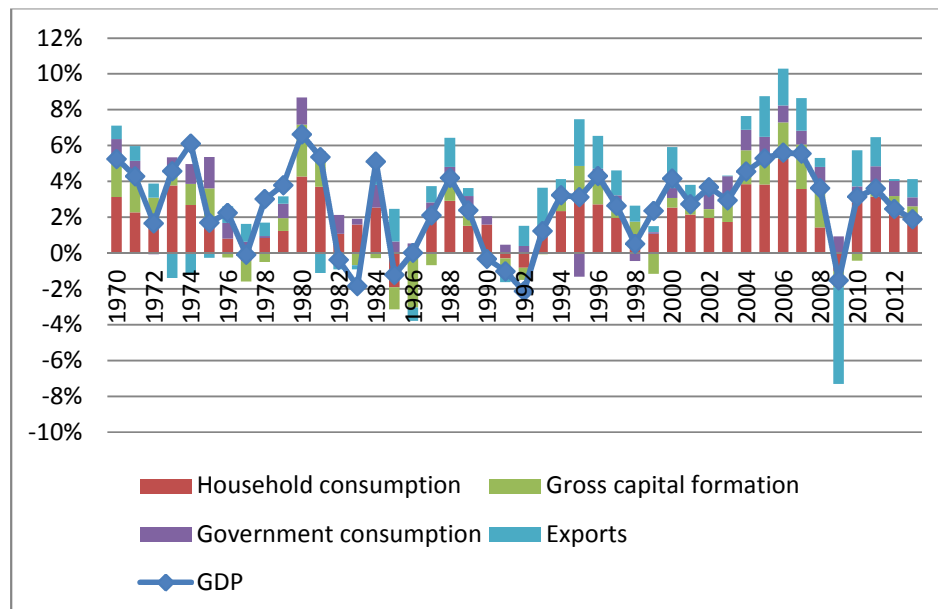
I. Long-run development in the era of financialisation since the early 1980s and the economic and financial crises

Figure 1. shows the growth trajectory of the annual rate of GDP growth from 1980 to 2013 together with the growth contributions of the main demand aggregates: household consumption, government consumption and investment. The growth trajectory of South Africa over the last three decades can be divided into two periods from the 1980s to the early 1990s characterised by debt crisis and economic sanctions and the post-1994 period of economic reforms. In neither period can the long-run development trajectory be identified as one of the four dominant types: (a) debt-driven consumption boom; (b) domestic demand-led; (c) weakly export-led; or

(d) export-led mercantilist). From the consistently large and negative current account balance, it is clear that economic growth in South Africa has not followed an export-led mercantilist model over the last three decades. Rather, as will be revealed in subsequent sections, growth can be characterised as a combination of (a), (b) & (c), each becoming more important at different times.

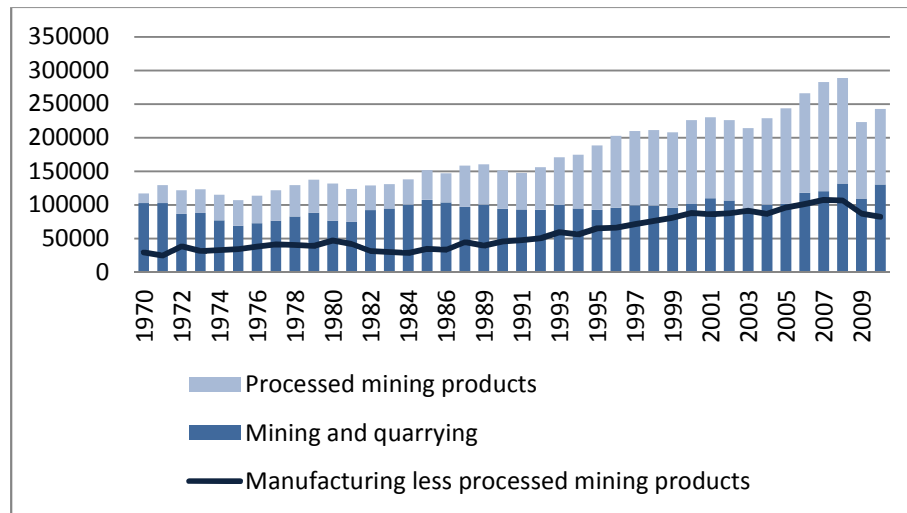
The importance of exports in driving growth has varied throughout the three decades. Variation in the 1980s occurred owing to fluctuations in world prices for commodities, in particular gold, together with the effect of economic sanctions on trade. With the continued dominance of mining and processed mining products in South Africa's exports (figure 2). Export value in the post-1994 period has varied in line with amplified fluctuations in the world prices for metal and mineral resources. The dip in world commodity prices that came after the peak of the 'bubble' in July/August 2008 saw the collapse in exports in the same year that contributed to negative GDP growth in the first two quarters on 2009.

Figure 1. Contributions to GDP, 1970-2013



(Data source: SARB Quarterly Bulletin 2014)

Figure 2. Exports of goods from South Africa, 1970-2010 (R millions constant 2005-prices)



Source: SASSID 2012

With the dual crises of debt and political legitimacy, the 1980s and early 1990s saw volatile and negative GDP growth rates that were driven by divestment (negative growth in the capital stock) that resulted from external economic sanctions and the reluctance of domestic capitalists to invest in illiquid fixed assets with growing political uncertainty. Trapped by economic sanctions, domestic capital sought alternative avenues for investment via the financial sector. The period from the mid-1980s until the early 1990s saw persistently large financial surpluses as a share of GDP in the domestic economy (figure 3). This saw the increase in acquisition of financial assets by non-financial corporations throughout the 1980s that fuelled the rapid expansion of, and developments in, the financial sector made possible by a series of financial sector reforms (figure 4). The financial sector reforms of the 1980s were informed by the De Kock commission and amounted to deregulation through the abolition of specialised bank categories² and the removal of barriers against foreign entry into the sector and the shift to international standards for capital requirements as prescribed by Basel. (Verhoef 2009)

As will be discussed further in section II.2, the patterns of financial and real-investment for non-financial corporations in the 1980s follow the stylised pattern for

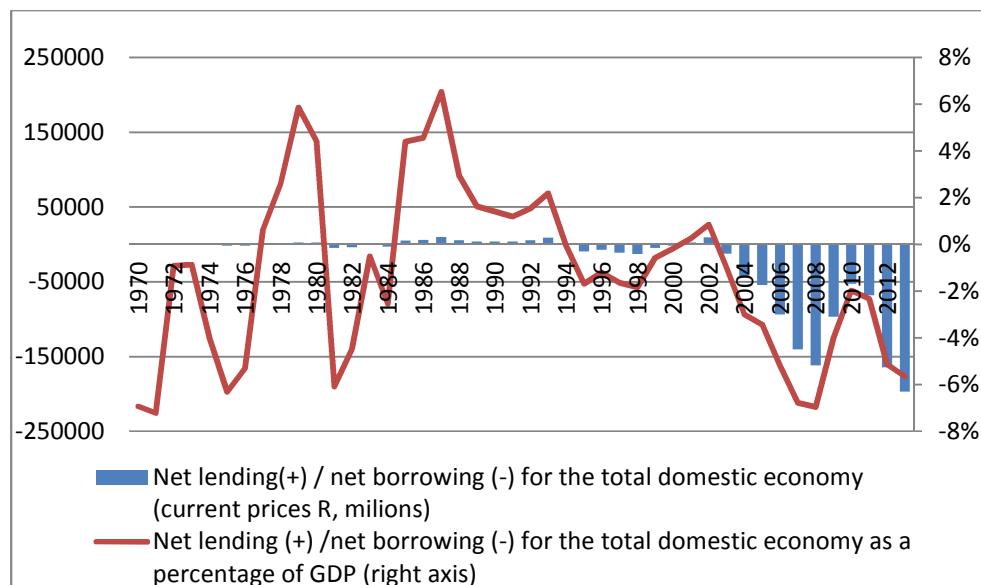
² By 1994, all distinctions between deposit-taking institutions were removed.

financialised corporations in the US over the same period (Orhangazi 2008). However, as discussed above, this pattern was born from domestic political economy conditions and not financialised accumulation, although it did lay the conditions for the form and pace of financialisation in the South African economy from the early 1990s. From 1994 onwards the economy went from being a net lender to a net borrower from the rest of the world. These (largely short-term) inflows fuelled financialisation of the domestic economy and the further expansion of the financial sector (figure 6).

Both exports and gross capital investment grew at higher rates as internal and external expectations of the economy improved between 1995 and 1998. From 2002 to 2008, the key demand driver in GDP growth was investment. The significant expansion in capital investment came from large infrastructure spends associated with the Soccer World Cup of 2010 and was neither long-lived nor far reaching. As will be seen in section II.2, capital investments across the productive sectors have grown much slower than GDP and was not accompanied by any decrease in the acquisition of financial assets by non-financial corporations. Financial investment by non-financial corporations continued to increase alongside capital investment, financed through borrowing between 2002 and 2008 (figures 4 and 5).

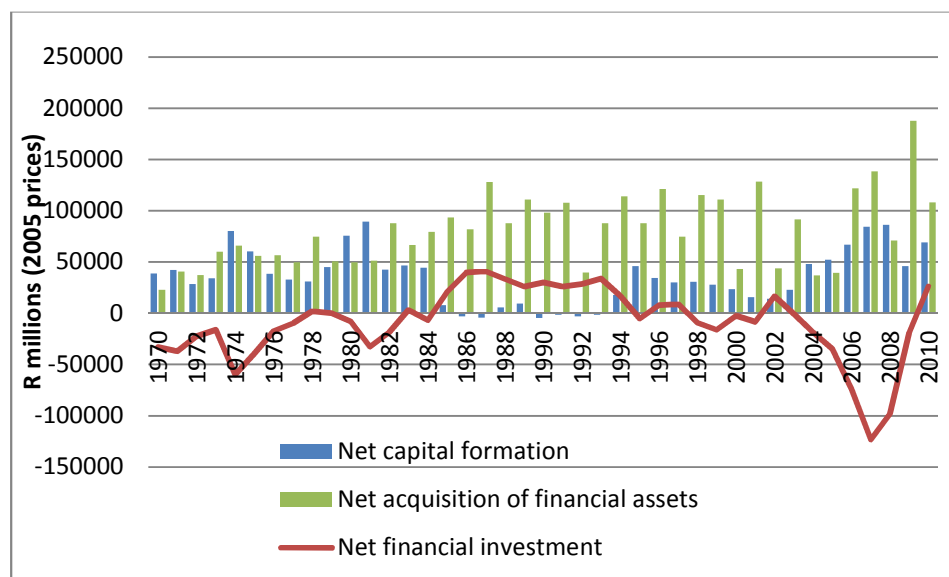
For the period, 1995-2008 domestic consumption grew at a similar rate to GDP. As will be shown in greater detail in section II.3, part of this growth in consumption has been accompanied by increasing credit expansion by financial institutions and growing household indebtedness. In 2004, households in aggregate switched from being a net-lender to being a net-borrower from the rest of the economy until 2008 (figure 5).

Figure 3. Net lending (+)/ net borrowing (-) position for the domestic economy in current prices and as a % of GDP, 1970-2013



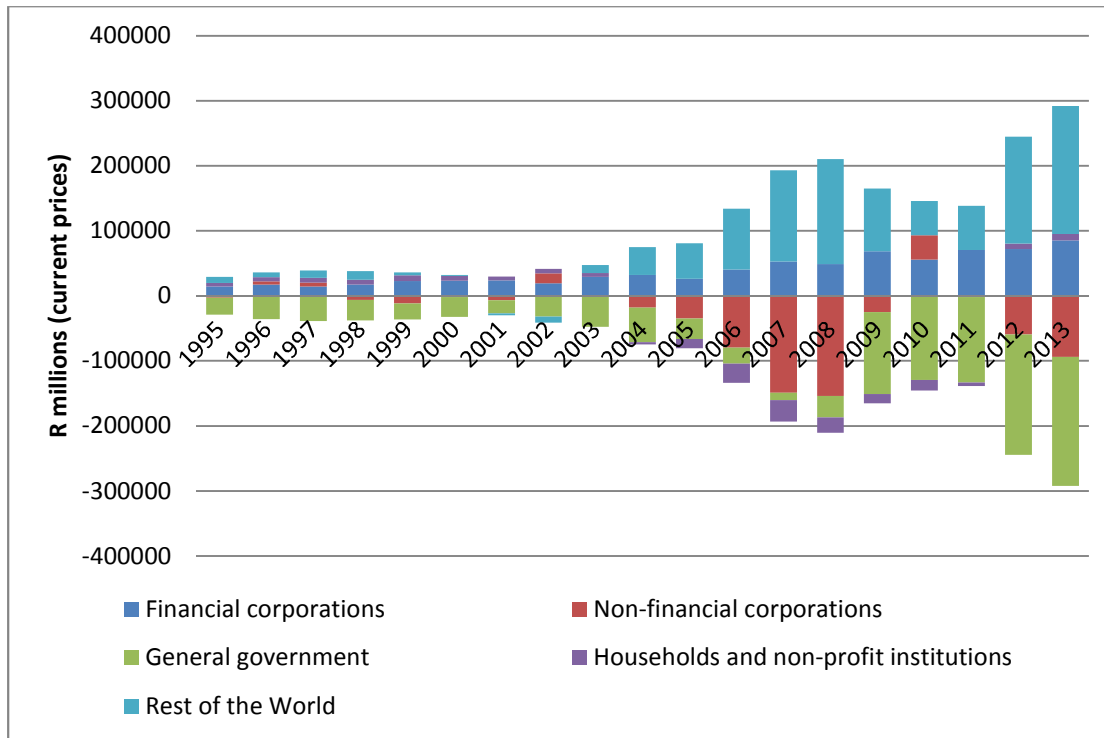
(Data source: SARB Quarterly Bulletin 2014)

Figure 4. Net annual capital formation, acquisition of financial assets and financial investment by non-financial corporations in South Africa: 1970-2010



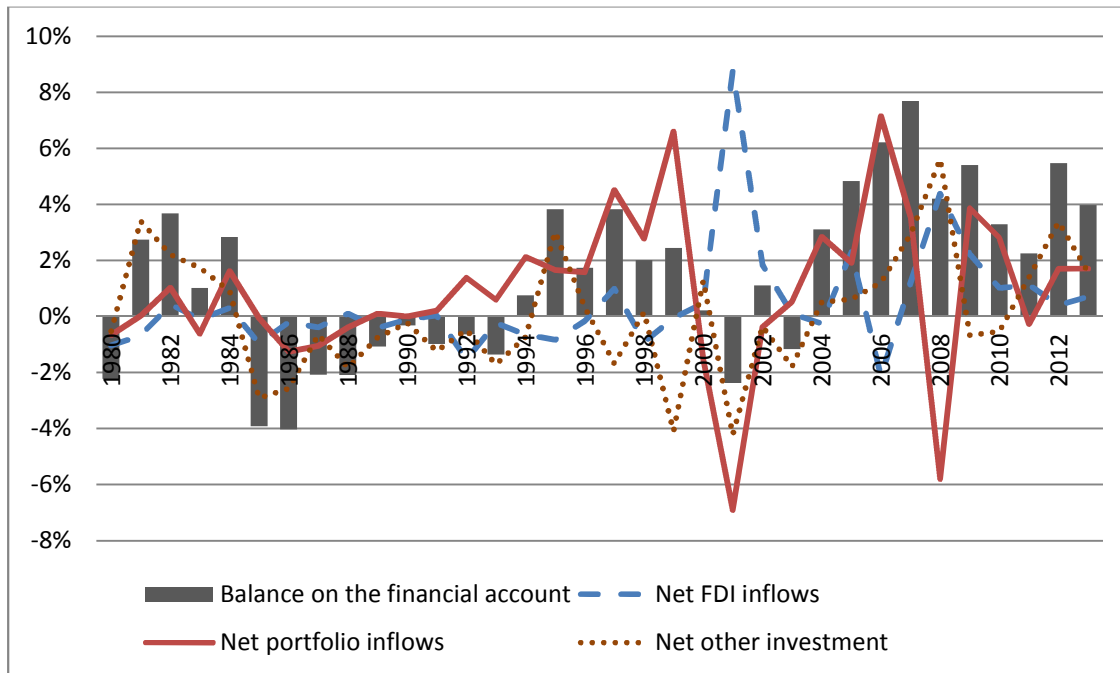
(Data source: Flow-of-funds tables, SARB 2011)

Figure 5. Net financial positions for aggregate sectors (net lending +/net borrowing -) 1995-2013



(Data source: SARB Quarterly Bulletin 2014)

Figure 6. Balance on the financial account as a percentage of GDP, 1980-2013



(Data source: SARB Quarterly Bulletin 2014)

As already mentioned the form and pace of the financialisation of the South African economy has been conditioned upon developments in the financial sector under apartheid. Moreover, the effect of financialisation on inequality has largely occurred via its effect on employment has its roots in the industrial structure which is heavily skewed towards capital intensive industries connected to extractive industries. The growth trajectory of the South African economy under apartheid was shaped by significant state intervention in industrial and financial development. It is the particular industrial and economic structure that was built during this period that laid the foundations for the rapid financialisation and deindustrialisation of the economy from the early 1990s.

Heavy state intervention in industry between the 1950s and 1980 was focussed on the promotion and development of large scale, capital intensive, sectors linked to extractive industries. From this emerged, what Fine and Rustomjee (1997) referred to as the Minerals and Energy Complex (MEC) core, a set of industries identified by very strong input-output linkages with each other and weak linkages that serve as the core site of capital accumulation^{3,4}. These are:

- Coal mining
- Gold and Uranium mining
- Other mining
- Petroleum, chemicals, rubber and plastic
- Non-metallic minerals

³ In addition to the strong material interdependencies of the MEC core sectors, these sectors exhibited highly concentrated ownership.

⁴ 70% of productive inputs into the MEC sectors come from the MEC core itself and 56% of intermediate output from MEC sectors goes back into the MEC core as inputs. By contrast, only 25% of intermediate inputs into non-MEC manufacturing sectors are sourced from the MEC and only 10% of intermediate output from non-MEC sectors is fed into MEC sectors as inputs.

Basic iron and steel
Basic non-ferrous metals
Metal products excluding machinery
Machinery and equipment
Electricity, gas and steam
Transport and storage

It is worth noting that the coherence and cohesion of the MEC has persisted throughout the four decades since 1970. The strength of direct forward and backward linkages between MEC-subsectors has remained remarkably stable since 1970. This cohesion and coherence has resulted, not only in determining the dynamics of its own expansion and development through dynamic increasing returns to scale that come about through the growth pull effects on linked sectors, but also in conditioning the nature of industrial development outside of the MEC-core. Because of its lack of integration with economic activities more broadly⁵, expansion of the MEC-core has occurred in relative isolation from, and at the expense of, non-MEC sectors, in particular labour intensive manufacturing of consumer goods. A major corollary of this has been an industrial structure skewed in favour of capital intensive, heavy, industries with limited labour absorption that have made up between 50 and 62 per cent of total manufacturing output since the 1970s.

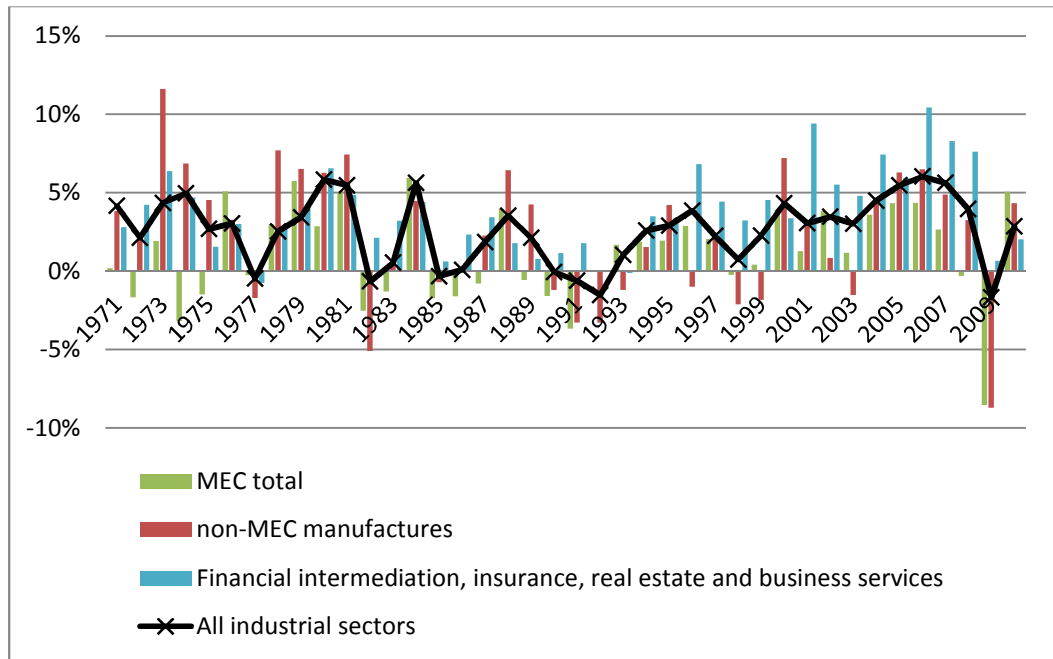
For the apartheid period, GDP growth was driven by MEC sectors. Growth rates in value-added for non-MEC manufacturing sectors were consistently higher than the overall rate of growth in value-added, thereby increasing its overall contribution to GVA (figures 7 & 8). Even with a declining share in GVA, MEC sectors continued to dominate in domestic value-addition until the 2000s when finance and business

⁵ Except through common ownership within the conglomerate structure that prevailed over the economy until the transition from apartheid.

services took over as the largest contributor to domestic GVA. The late 1980s and the 1990 saw the rapid divestment and decline of non-MEC manufacturing sectors (figures 7 and 8). Economic growth since 1994 has been driven by financial and business service sectors.

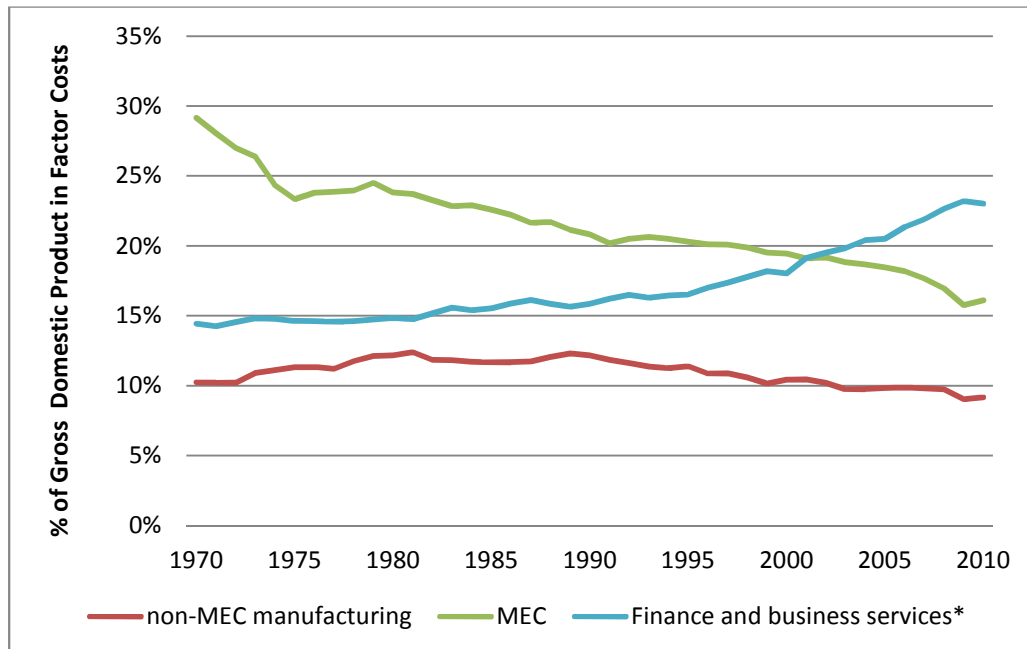
In summary, it is evident from our discussion above that South Africa has not consistently followed a growth trajectory characterised by one of the four dominant types. Rather, different forces have driven growth at different times. South African exports have continued to be dominated by metals and minerals (processed to varying degrees). The role of exports as a driver of economic growth has thus depended upon external market conditions and world commodity prices. South Africa experienced a brief growth spurt from the mid-2000s until the global financial crisis, this was driven by household consumption - funded out of debt - and capital investments associated with large infrastructure projects. These patterns of growth, as well as their implications for change, can be understood in relation to South Africa's historical industrial trajectory and the persistence of its industrial structure as a legacy of apartheid. As we will see below, financialisation of the South African economy has led to the reproduction of apartheid patterns of investment and thus the persistence of its skewed industrial structure with serious implications for employment and inequality.

Figure 7. Annual rates of growth in value added for all industrial sectors in aggregate and selected sector groupings



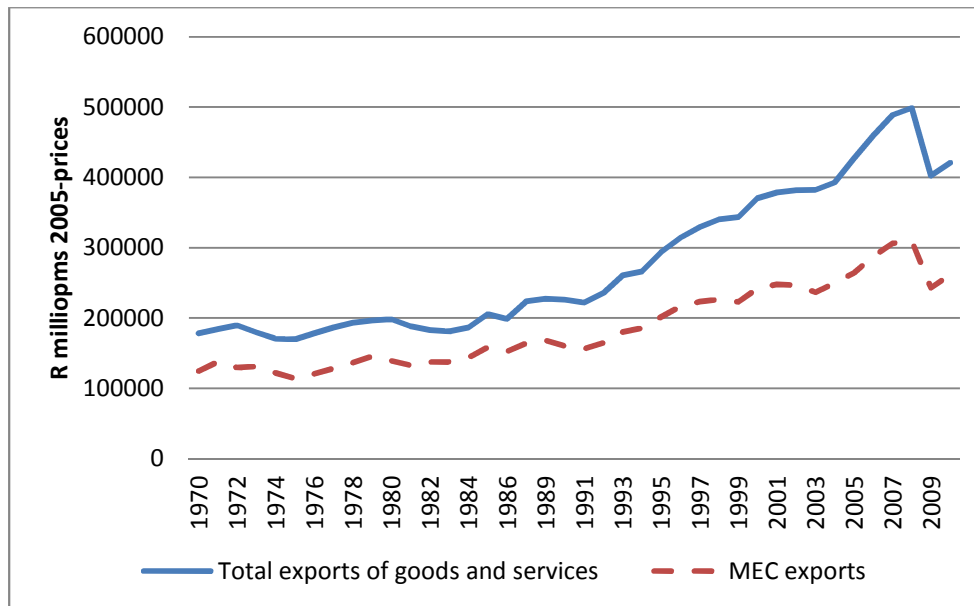
(Data source: SASSID 2012)

Figure 8. Value added of selected sector groupings as a share of total domestic value added.



(Data source: SASSID 2012)

Figure 9. Annual export value, 1970-2010



(Data source: SASSID 2012)

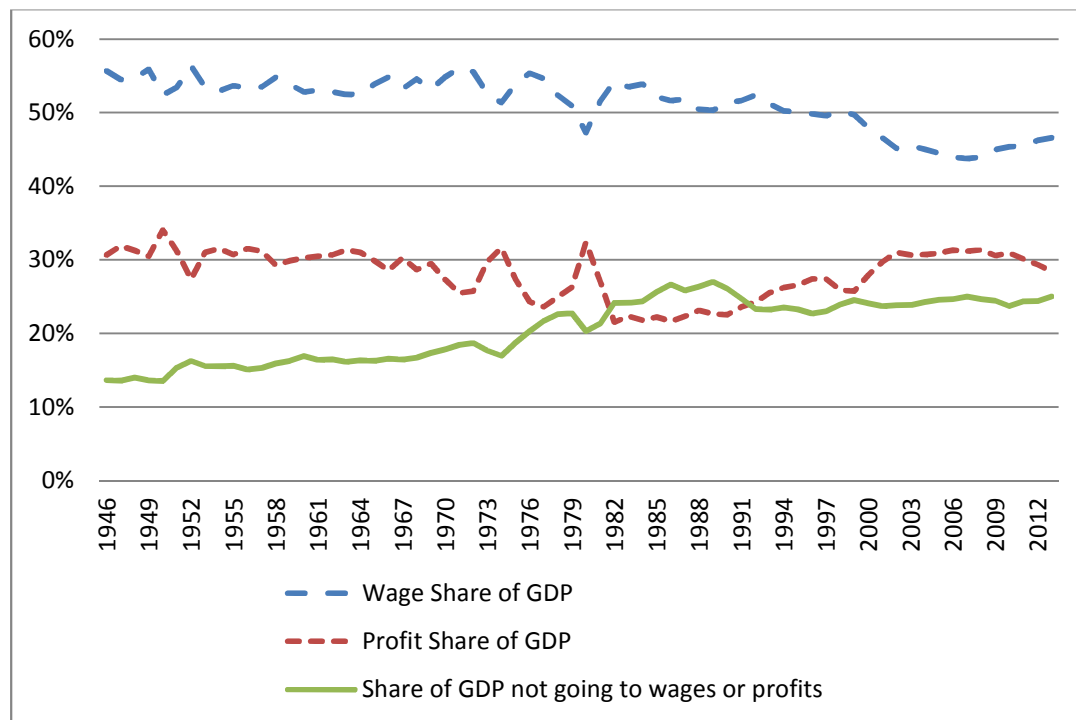
II. Long-run effects of financialisation on the economy through different channels

II.1 Financialisation and distribution

South Africa jostles with Brazil for the position as the world's most unequal society. The apartheid system was founded upon the sharp divisions between racial groups and drove the worsening division between rich and poor. Paradoxically, the end of apartheid saw the worsening of inequality, an increasing gap between rich and poor, with a reconfiguration of the racial profile. The emergence of black elites has widened the gap between rich and poor within the racial group, while the poorest section of society continue to be black Africans. According to a recently published Oxfam (2014) report, the richest two people in South Africa have the same wealth as the bottom 50 per cent of the population. This section gives a broad overview of the dynamics of distribution in South Africa as it is related to the dynamics of financialisation.

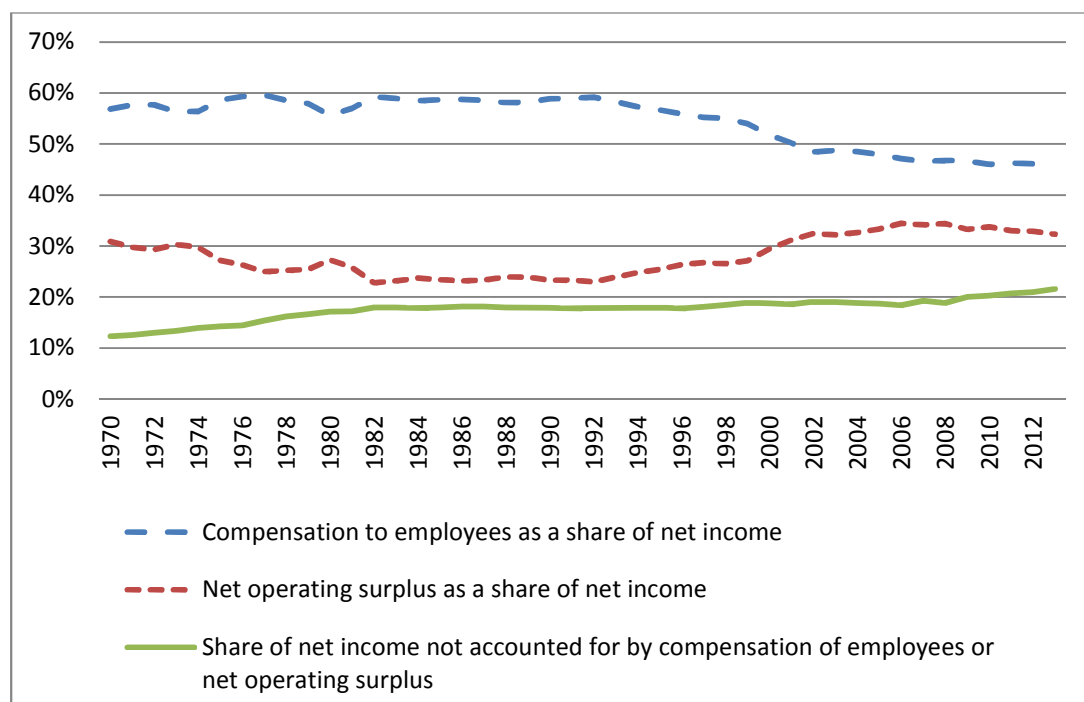
Functional income distribution in South Africa

Figure 10. Functional distribution of income 1945-2012



(Data source: SARB Quarterly Bulletin 2014)

Figure 11 Functional distribution of income for all industries, 1970-2013



(Data source: SASSID 2014)

Figure 10 shows the evolution of the functional distribution of national income in South Africa from 1946 to 2013. The wage share of GDP fluctuated around 55% from the 1940s until late 1970s. From the early 1980s a downward trend in the wage share of GDP can be discerned. This downward trend mirrors the upward trend in the profit share of GDP over the same period. As has already been discussed above, the debt crisis and the crisis of apartheid in the 1980s resulted in a fall in productive investment, stagnation in the real economy and increasing acquisition of financial assets and accumulation through the financial sector. In contrast to the relative stability of the wage share up until the 1970s, the profit share of GDP began declined between the mid-70s and early-80s. This was matched by an increase in the share of GDP not going to wages or profits. As the share of GDP not going to wages or profits was calculated as a residual, it is unclear exactly what the upward trend in the 1970s can be attributed to. It might reflect an increase in rentier income that is not registered in profit⁶. The profit share of GDP has increased since the early-1990s, displacing the wage share while the share not going to wages or profits has remained somewhere between 23% and 25% of GDP.

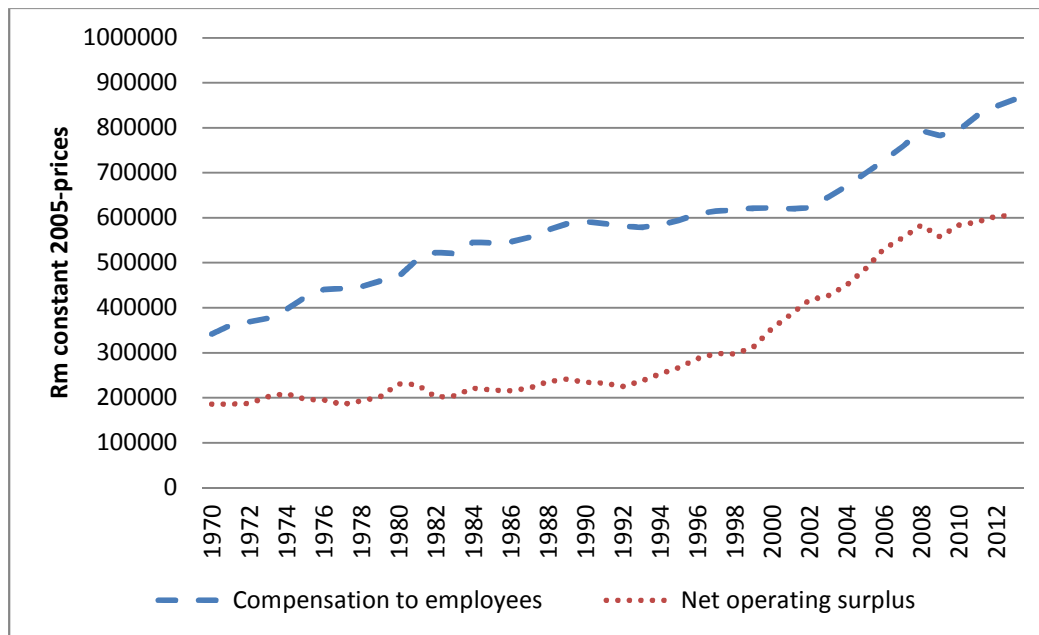
Figure 11 uses data from the South Africa Standardised Industry Database (SASSID) to plot the evolution of the functional distribution of income. This allows for depreciation to be netted out of the share of income not accounted for by wages or profits. The trends in wage and profit shares of income follow those shown in figure 10. The residual share has increased from 12% in 1970 to 22% in 2013 and is indicative of a rising rentier share in income.

The increase in the profit share of GDP occurred as a result of stagnation in the aggregate compensation to employees in real terms and growth in profits over the period 1990 – 2001 (figures 12 & 13). It was capital that reaped the benefits of economic growth in the early post-apartheid period. Since 2001, real aggregate compensation to employees has increased year on year alongside aggregate

⁶ Determination of the source of increase in the share of income not attributed to wages or profits requires further interrogation of data sources and reporting conventions.

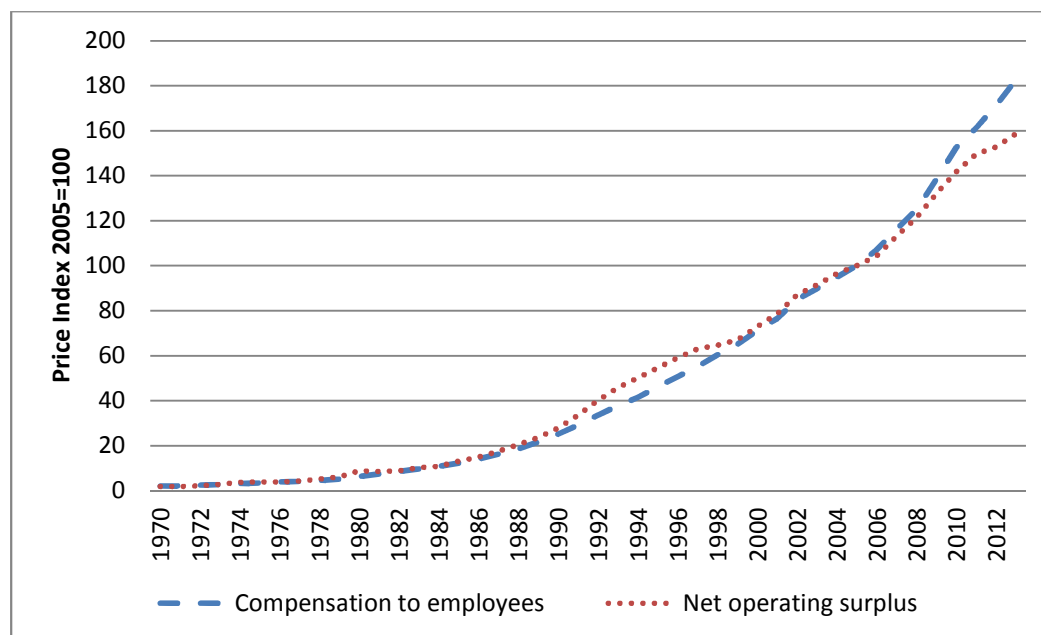
operating surplus except for a fall in 2009 when the economy contracted in the wake of the North Atlantic financial crisis. Profits have increased at a slower rate than wages since 2009, leading to a slight increase in the wage share of GDP at the expense of the profit share.

Figure 12. Aggregate wages and profits across industrial sectors 1970-2013 (constant 2005-prices)



(Data Source: SASSID 2013)

Figure 13. Aggregate wages and profits across industrial sectors 1970-2013 (index 2005=100)

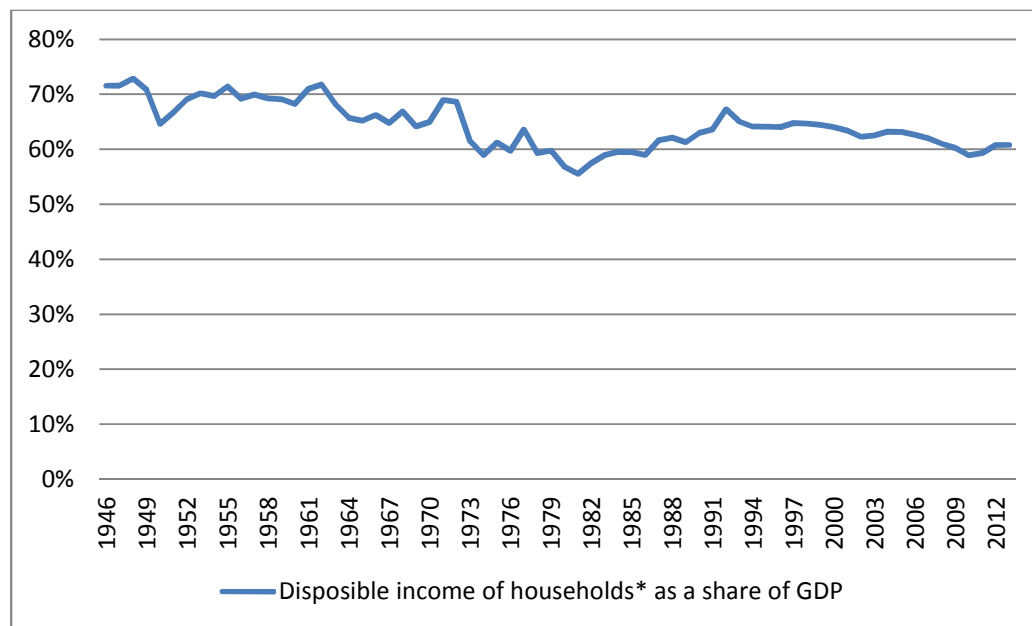


(Data Source: SASSID 2013)

Distribution of income across households

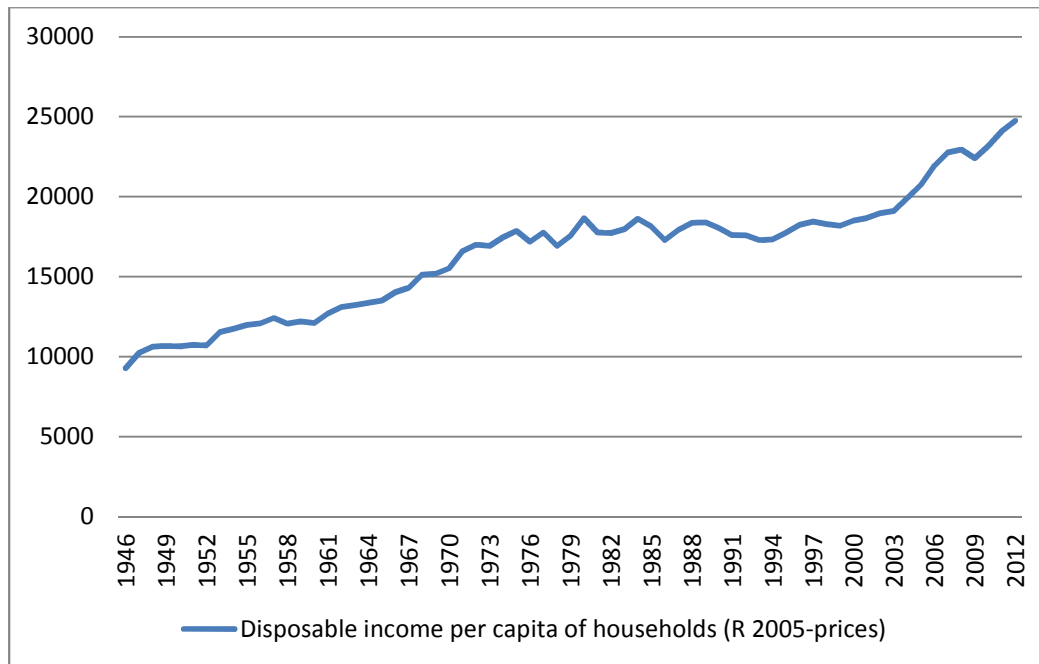
Household disposable income as a share of GDP exhibited a negative trend from the 1960 until 1980. Up until the 1970, the declining share of household income to GDP occurred at the same time as increasing real aggregate household disposable income – the rate of growth in GDP was greater than the rate of growth in household disposable income. From the 1970s until the early 1990s, real aggregate household disposable income stagnated. Its share of GDP increased between 1980 and 1992 because of unstable and often negative growth in the 1980s. The period since 1994 has seen a slight declining trend in the share of disposable income to GDP as growth rates picked up. Aggregate real disposable income only began increasing after 2000 as the wage share of GDP started to increase.

Figure 14. Households' disposable income as a share of GDP, 1946-2013



(Data source: SARB Quarterly Bulletin 2014)

Figure 15. Disposable income per capital of households, 1945-2013

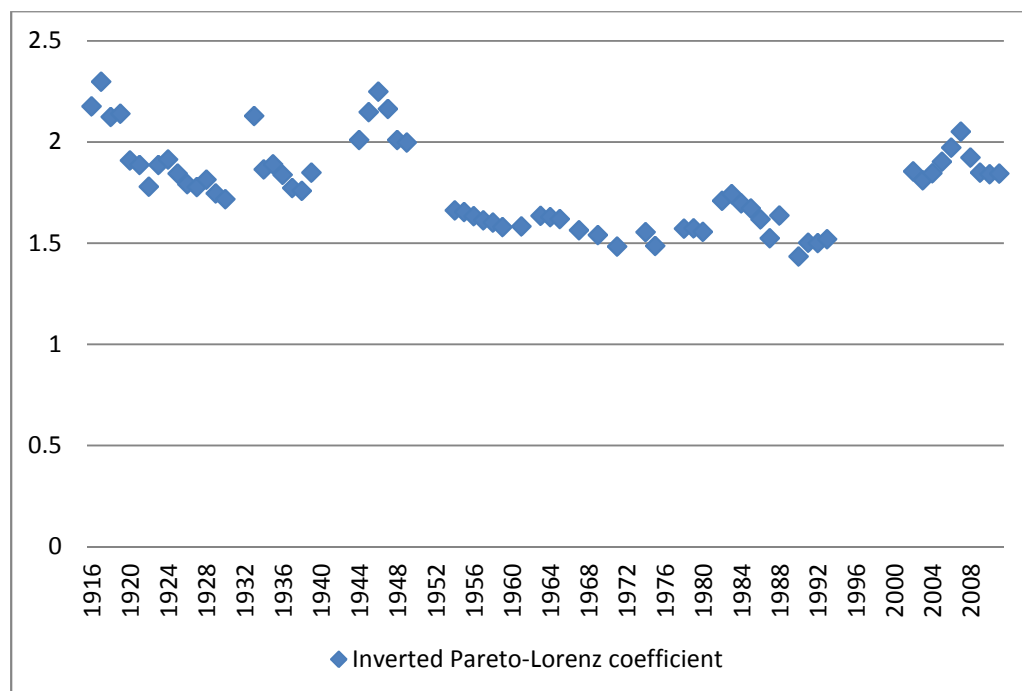


(Data source: SARB Quarterly Bulletin 2014)

Perversely, the demise of the state sanctioned system of racial division and inequality has been followed by a system of accumulation or growth model that has had a worsening effect on the distribution of income. Income inequality, as measured by the inverted Pareto-Lorenz coefficient is higher today than for any time during National Party rule.

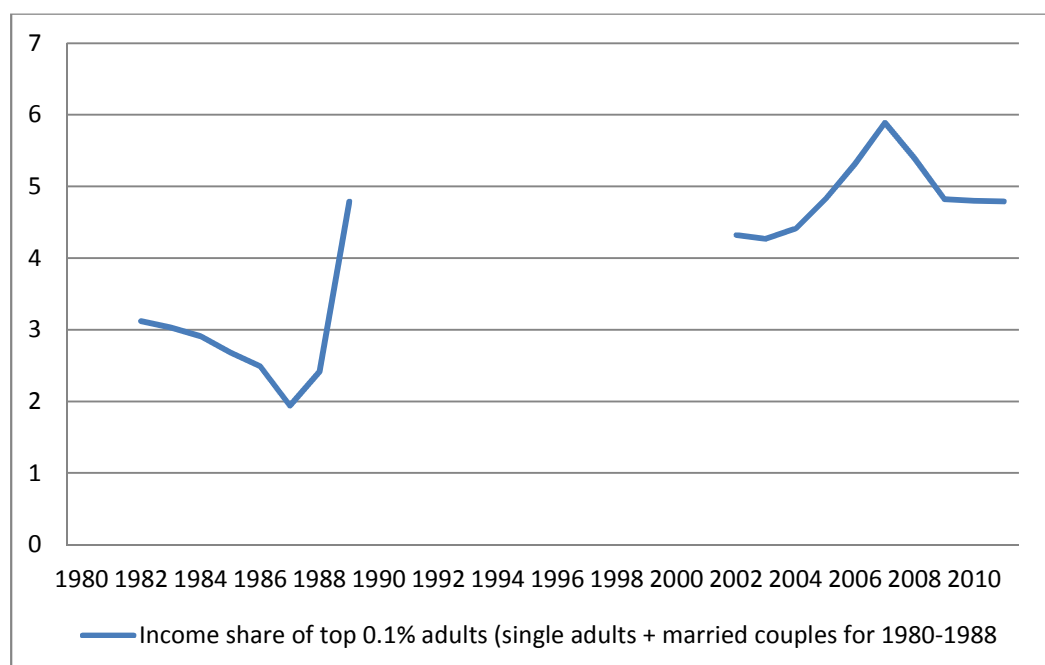
The most dramatic increase in income has been experienced by the top 10% of the population who saw an increase 4.2 percentage points in their share of total income between 1993 and 2008. The income share of the bottom 10% increased by 1.36 percentage points. The income share of the second to ninth deciles each saw a reduction in income share. (table 2).

Figure 16. Inverted Pareto-Lorenz coefficient, 1916-2010



(Data Source: World Top Incomes Database 2014)

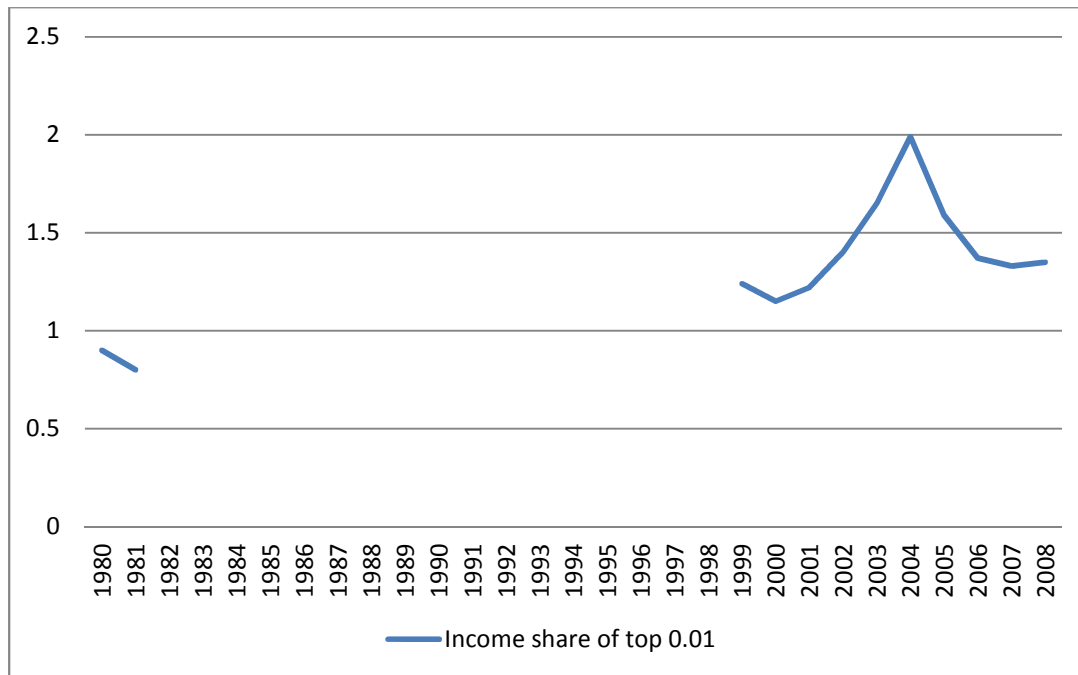
Figure 17. Income share of top 0.1% adults*, 1980-2011



*Data for 1980-1988 included single adults & married couples

(Data Source: World Top Incomes Database 2014)

Figure 18. Income share of top 0.01% adults*, 1980-2011



*Data for 1980-1988 included single adults & married couples

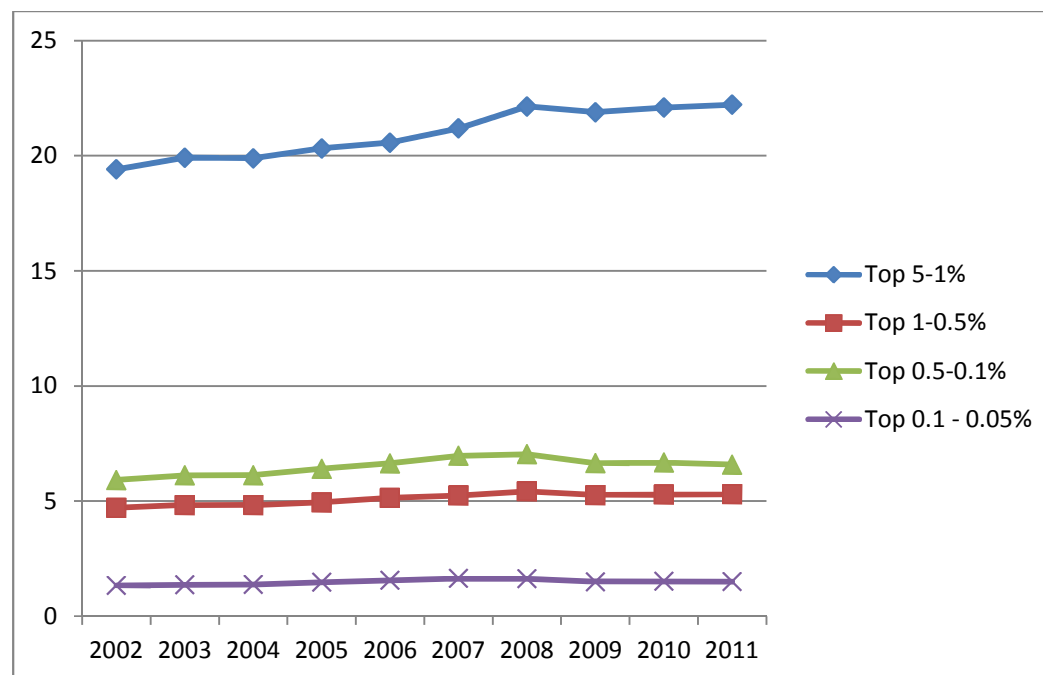
(Data Source: World Top Incomes Database 2014)

Table 2. Share of total income by decile (1993, 2000, 2008)

Decile	1993	2000	2008
1	0.27%	0.44%	0.40%
2	1.03%	1.07%	1.01%
3	1.66%	1.56%	1.52%
4	2.21%	2.15%	2.08%
5	3.15%	2.95%	2.78%
6	4.33%	3.96%	3.65%
7	6.16%	5.61%	5.35%
8	9.61%	8.76%	8.56%
9	17.69%	16.79%	16.57%
10	53.89%	56.71%	58.07%

(From Leibbrandt et. al. 2010)

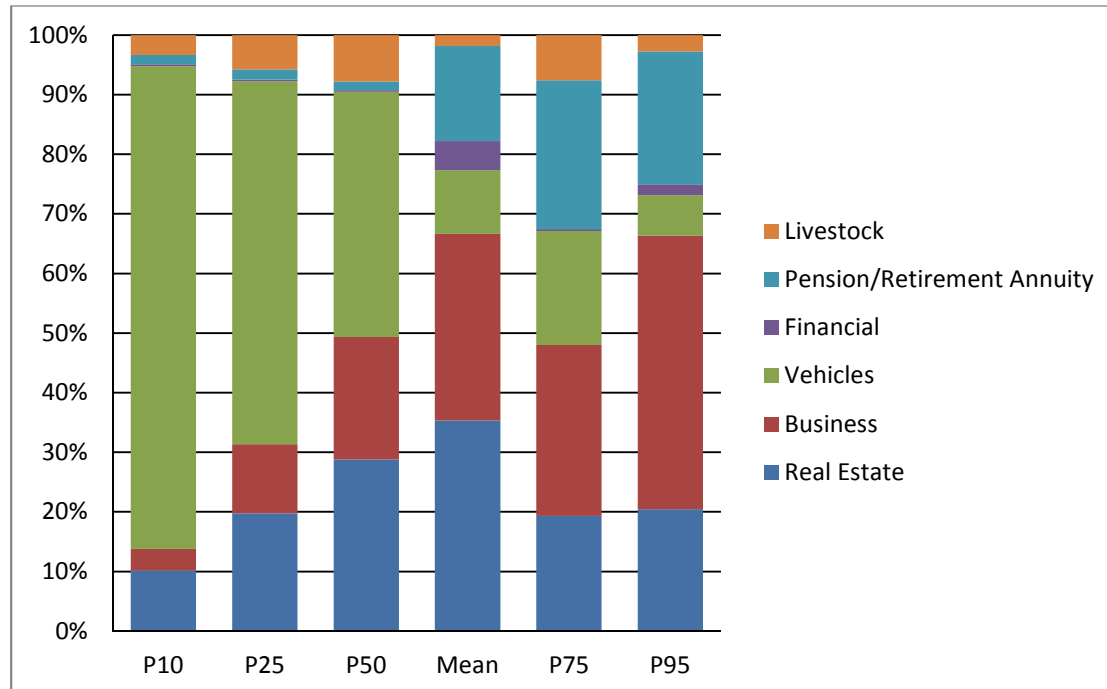
Figure 19. Income shares of groups within the top 5%, 2002-2011



(Data Source: World Top Incomes Database 2014)

Changes in the distribution of income and patterns of income growth mirror the distribution of financial assets held by households across the income distribution. As will be discussed in greater detail in section II.3, the composition of the aggregate balance sheet has changed dramatically since 1994. Amongst the components of assets and debts, financial assets are the most unequally distributed, with a Gini coefficient of 0.95 (Finn, Leibbrandt & Levinsohn 2012). Only the few at the very top of the wealth distribution directly hold equities. This can be seen in the distribution of assets across wealth percentiles (figure 20). Increasing incomes from dividends and interest payments of the very top of the income distribution has also driven worsening income inequality since 1994. This corroborates with findings by Palma (2009) that worsening income inequality in the United States was largely driven by the very large increases in income of the top 1% of the income distribution through increased earnings from financial activities.

Figure 20 . Distribution of household assets by wealth percentile



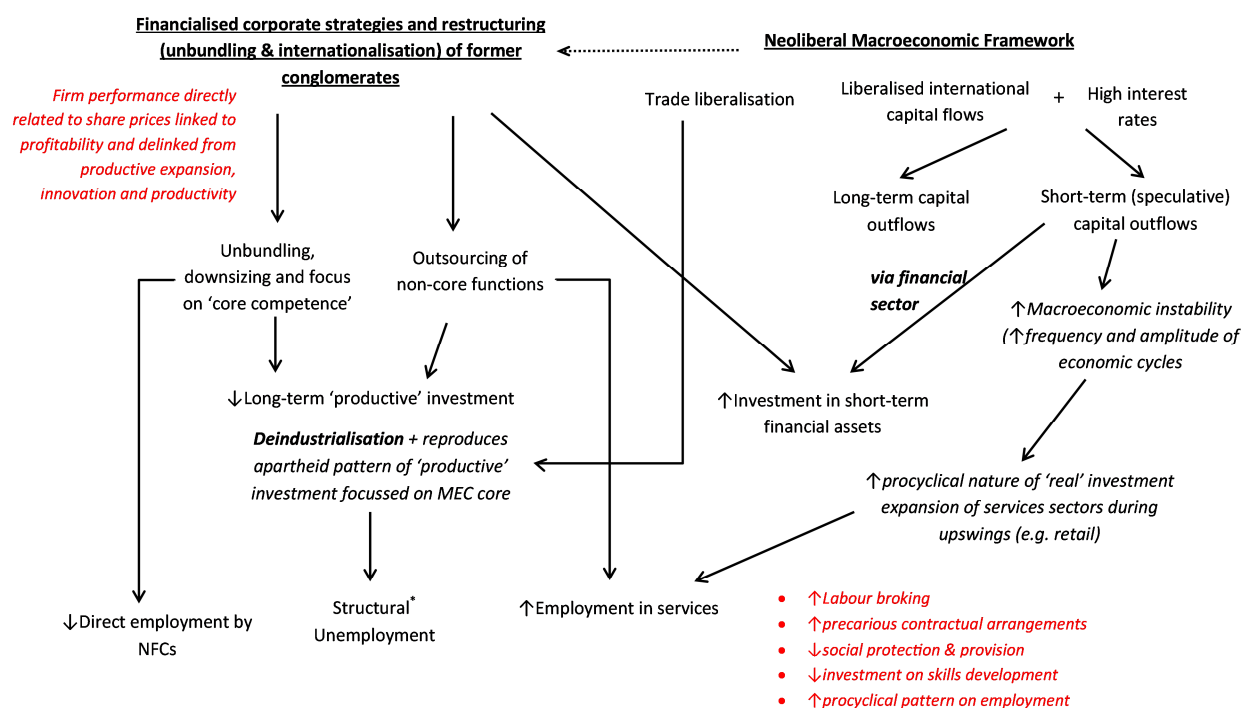
(Based on data from Daniels, Finn and Musundwa 2012)

At the bottom end of the income distribution, it has been persistently high levels of unemployment that has been an important driver of inequality. According to Finn et al. (2012), 38% of inequality is accounted for by unemployment. Systemically, rising unemployment can be attributed to falling levels of real investment (discussed in the next section) and the process of 'deindustrialisation', with labour intensive consumer goods sectors such as textiles and clothing suffered particularly from trade liberalisation. While the loss of jobs in mining and manufacturing appear to have been made up in the expanding services sectors there are important qualifications to be made about the quality of employment in these sectors for low skilled workers. A component of the increase in employment in business services relate to the shift from in house to outsourced cleaning, security and other ancillary business services and not reflective of an absolute rise in employment. (Mohamed and Roberts 2007) Where there has been a rise in employment in services, these have been in extremely low wage activities and average remuneration has fallen as employment has increased (ibid.). Moreover, 40 per cent of workers are trapped in the informal sector where there is no minimum wage and workers' rights are ignored (Oxfam 2014). According to Leibbrandt et al. (2012) 62 % of inequality is accounted for by differences in wages. The same study showed that not only did the poorest see a decrease in their share of income but real wages for these groups also declined. While social grants have played an important role in decreasing poverty, it has had no effect on inequality. (ibid.) According to a recent World Bank (2014) report on fiscal policy and redistribution in South Africa, progressive taxation and social spending the gini coefficient on income from 0.77 to 0.59.

In relation to financialisation, employment has been closely related to corporate restructuring that includes the processes of downsize and distribute associated with the shareholder value movement. In addition, and in relation, to raising shareholder value, non-financial corporations have restructured in order to maximise available funds for financial investment. Restructuring has involved higher degrees of

outsourcing, greater arms-length relationships with contractors and growing precariousness of labour relations (Milberg & Winkler 2013). Financialisation thus affects the level and conditions of employment via a number of distinct but interconnected channels that are illustrated in figure 21. It is difficult to quantify the extent to which trade union activities have affected these channels that link financialisation to conditions of employment. South Africa has relatively active and well organised trade unions with considerable political influence compared with the other countries investigated as part of this study. The tri-partite alliance of the African National Congress (ANC), South African Communist Party (SACP) and The Congress of South African Trade Unions (COSATU) has governed South Africa since the dawn of democracy in 1994. It is likely that this situation has retarded the worsening of an already bad situation in terms of unemployment and conditions of work.

Figure 21 Channels from financialisation to unemployment in the South African Economy



From Ashman, Mohamed & Newman 2013

Table 3 Gini coefficients for per capita income by race and geo-type

	1993	2000	2008
African	0.54	0.60	0.62
Coloured	0.44	0.53	0.54
Asian/Indian	0.47	0.51	0.61
White	0.43	0.47	0.50
Rural	0.58	0.62	0.56
Urban	0.61	0.64	0.67
Overall	0.66	0.68	0.70

(From Leibbrant et. al. 2010)

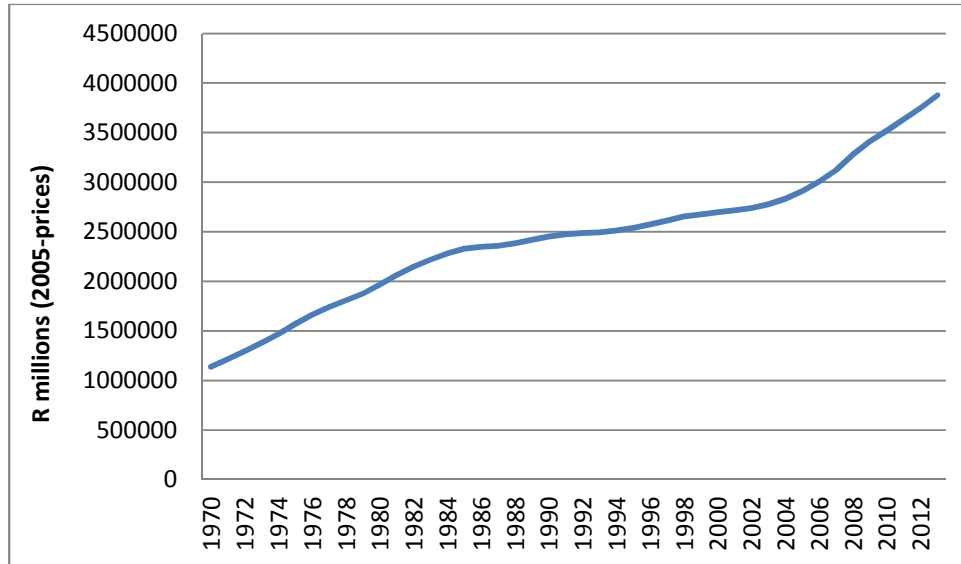
While beyond the scope of this paper to offer a thorough discussion on the topic, one cannot ignore the racial dimension of inequality in South Africa. Income inequality both within and across groups have been worsening as can be seen in the increase in both the within group and overall gini coefficient (table 3). There have been significant changes in the composition of racial inequality in that income inequality within racial groups has become increasingly more significant than inequality between racial groups. (Leibbrant et al. 2010) It might be argued that neoliberalism and financialised accumulation have replaced the system of apartheid as the drivers of inequality in South Africa.

In summary, the functional distribution of income follows the same pattern as other economies in the era of neoliberalism with a rise in the profit share and a fall in wage share of income. Because of limitations to the data available we were unable to deduce the rentier share of income directly. The rise in the share of income not accounted for by wages or profits is indicative of a rise in the rentier share. Paradoxically, the period of majority rule has seen worsening inequality in the income and wealth distributions. At the top of the income distribution this is driven in part by the increases income derived from financial assets an asset inflation and the

highly unequal distribution of financial assets across income groups. Unemployment is a major factor for income inequality and this has its roots in the structure of the economy and de-industrialisation associated with financialisation. Wage inequality is the main driver of inequality in South Africa. Again, its association with financialisation comes from corporate restructuring associated with financialisation, namely downsizing and outsourcing of non-key functions and increasingly precarious employment standards and high levels of informality that place downward pressures on wages for low-skilled jobs. Fiscal and redistributive policies have had some, but limited, impact on the reduction of inequality and absolute poverty.

II.2 Financialisation and investment in capital stock

Figure 22 Fixed capital stock for all economic sectors, 1970-2013



(Data source: SASSID 2014)

As discussed above in section I., investment in the capital stock stagnated in the 1980s as the debt crisis, the crisis of apartheid and economic sanctions culminated into a situation where domestic capital was reluctant to invest. But despite the transition to democracy in 1994, investment in the capital stock did not pick up until 2002. As will become clear, this increase in investment has been highly uneven in terms of its distribution across industrial sectors, and has largely been driven by state sanctioned infrastructure mega projects that include provisions for the 2010 Soccer World Cup, energy and port expansion. In 2013, the country planned to spend close to 1 trillion rand on infrastructure (KPMG 2013). If one was to net out the infrastructure spends from fixed capital stock, figure 22 would show a picture of stagnant investment. In the section that follows, the evolution of the investment behaviour of non-financial corporations will be discussed.

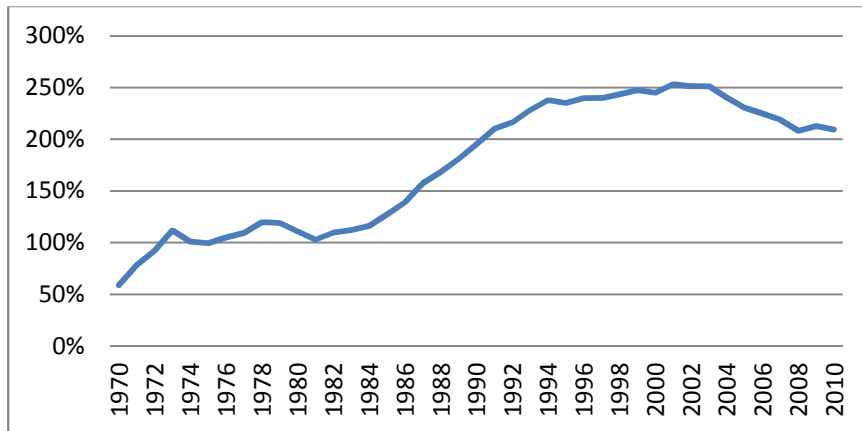
Non-financial corporations and financialisation

Traditionally, under a 'productionist' model, firms reinvested significant portions of the surplus obtained from production to increase the capital stock and thus the productive base of the firm. The 'productionist' model saw firms as the core site of capital accumulation. By contrast, the process of financialisation, or a 'financialised' business model sees an increase firms' financial operations and motives. The financialised firm has a very different relationship with the financial sector, itself transformed from simple intermediary between households' savings and firms' investment into regulator of firm and household behaviour. (Froud et al. 2002) One dimension of this is the tying together of firm performance with performance of its stocks and shares on capital markets associated with the shareholder value movement.

Figure 23 shows financial assets as a percentage of fixed capital stock has been increasing since the 1980s. Rather than signalling the onset of financialisation, the increase between 1980 and the early 1990s should be interpreted as the consequence of economic sanctions, tight capital controls and kept capital within the country together with the reluctance to invest in physical investments for fear of seizure in the case of political transition. This period also saw an increase in the share of income from financial investment (figure 26). The post 1994 period has seen a levelling of the ratio of financial to fixed assets at around 2.5 as investment stock recovered somewhat without reducing the acquisition of financial assets by non-financial corporations (figure 4). This pattern is corroborated by the trend in the ratio of fixed to total assets held non-financial corporations listed on the Johannesburg Stock Exchange (JSE) (figure 24).

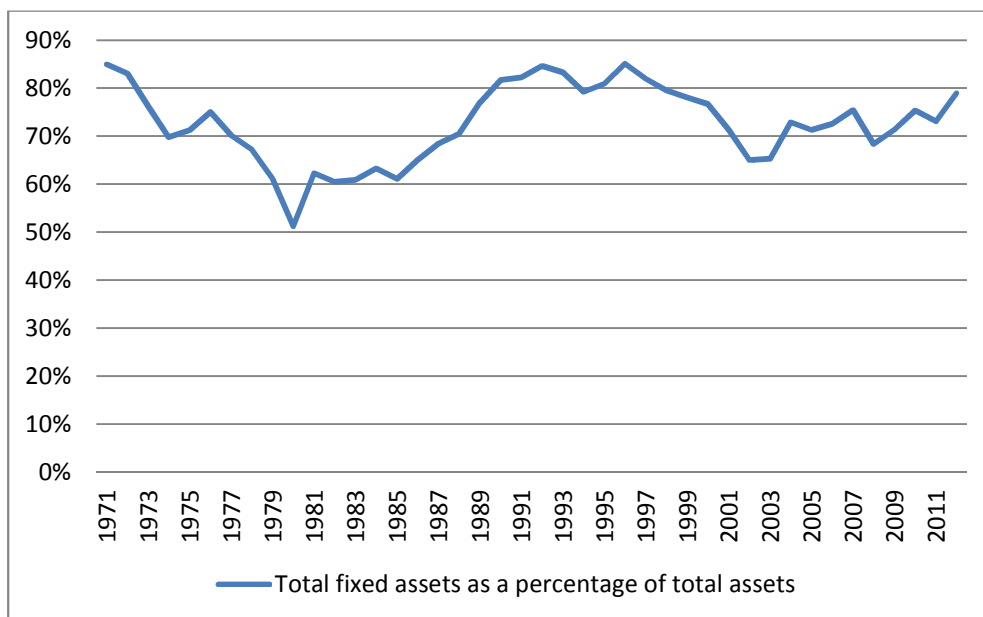
Figure 25 shows the evolution of the retention ratio for non-financial corporations listed on the JSE. The retention ratio from the 1980s until the early 1990s is close to zero. This is suggestive of the shareholders with the power to influence managers' allocation of capital and/or the alignment of interest between shareholders and managers. However, as already discussed, high pay-out rates are more likely to be a function of the reluctance of managers and shareholders alike in long-term, physical investments, during a time of economic and political uncertainty. Rather than a strengthening of shareholder power in the post 1994 period, we see the retention ratio both increasing and becoming more volatile year on year. Higher retention ratios are suggestive of investment by firms which fits with rapid increases in the capital stock since the mid-2000s. We should be cautious at drawing such a conclusion, however, without a closer look at the way in which firms finance investment and the types of investment that they finance. As we have already seen, the increase in capital expenditures by firms was not accompanied by a commensurate decrease in the acquisition of financial assets. Income from financial investments increased from around R750000 million to around R1.1trillion between 2006 and 2007, and continues to increase thereafter.

Figure 23. Financial assets as a percentage of fixed capital stock for non-financial corporations, 1970-2010



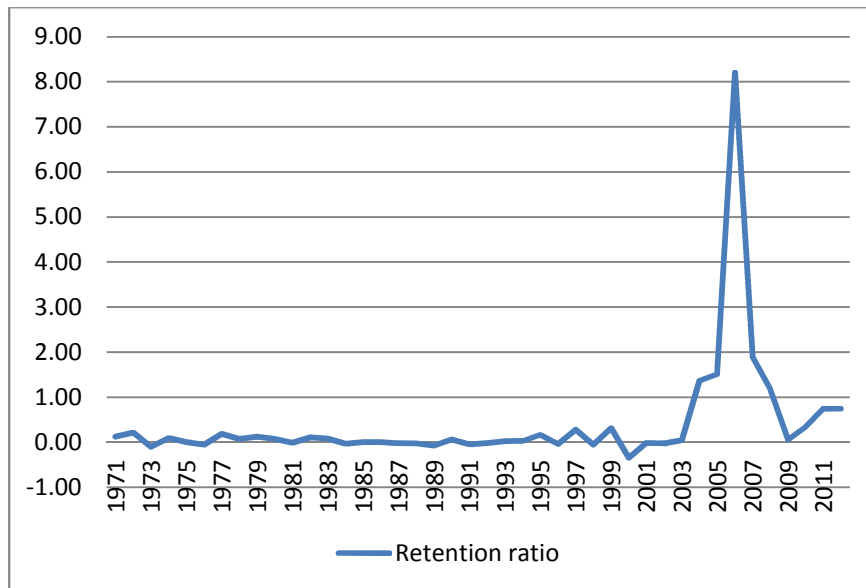
(Author's estimation based on flow-of-funds tables compiled by SARB 2011)

Figure 24. Total fixed assets as a percentage of total assets for all non-financial corporations listed on the JSE, 1971-2013



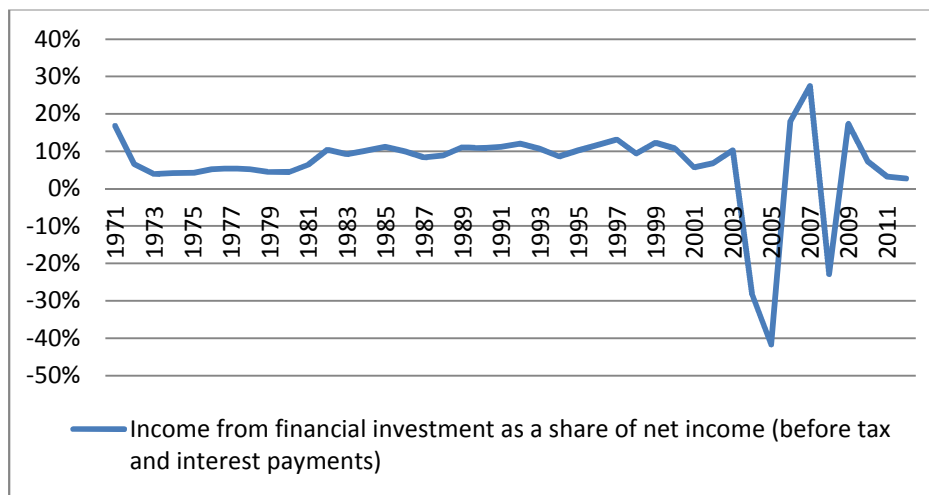
(Data source, McGregor's BFA database 2014)

Figure 25. Retention ratio for non-financial corporations listed on the JSE



(Data source, McGregor's BFA database 2014)

Figure 26. Income from financial investments as a percentage of net income (before tax and interest payments), 1971-2013



*negative values correspond with negative net income.

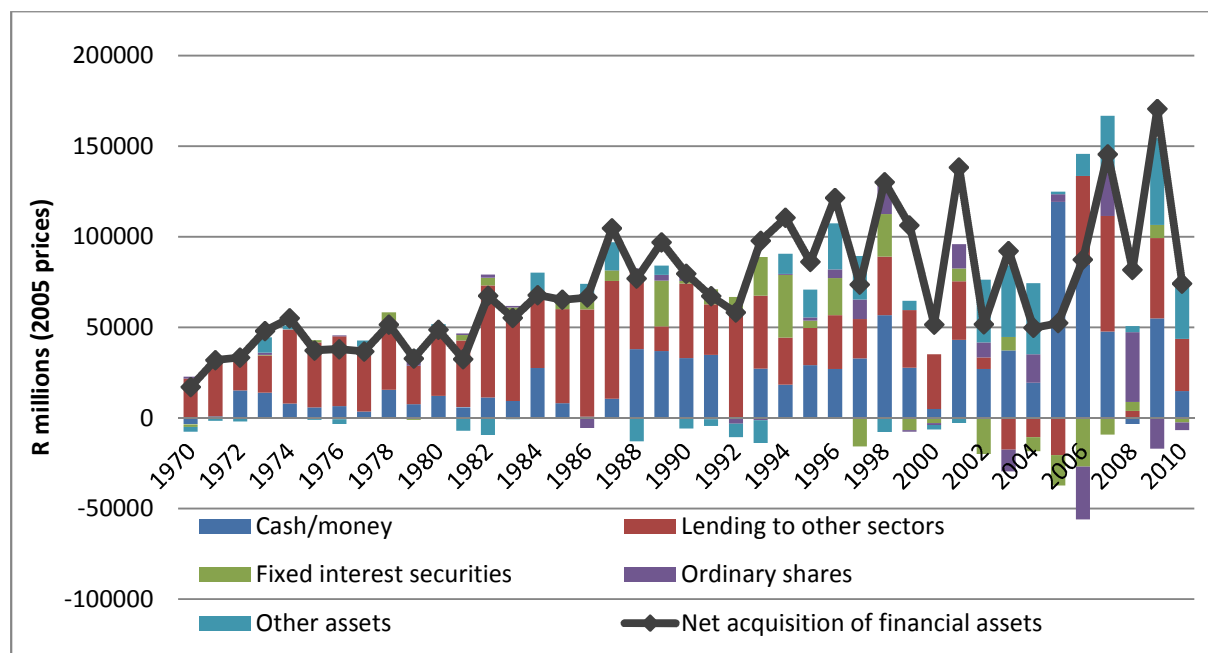
(Data source, McGregor's BFA database 2014)

The 'preference channel' appears to be stronger in the case of the financialisation on non-financial corporations in South Africa. The allocation of funds by non-financial corporations in the acquisition of assets reveals a clear preference for acquisition of financial assets over capital investment (figure 4). Moreover there has been a shift

towards more liquid financial assets that yield relatively short-term returns (figure 27). From 1970 until the early 1990s, lending to other sectors constituted the largest share of financial assets acquired each year. The period since 1994 has seen not only an increase in the overall value of financial assets acquired each year, but also a change in composition. The composition of financial assets acquired by non-financial corporations has become more diversified, liquid and varying from year to year. Another important feature of firms use of funds in the post 1994 period has been the holding of increasingly large cash balances. On average cash/money made up 19% of annual financial acquisitions in the period 1970-1987 compared to an annual mean of 48% from 1988-2010. In a detailed study of JSE listed firms, Karwowski (forthcoming) found that overcapitalisation was the norm for mining and basic materials producers. Karowski showed that in the context of South Africa, firms hold substantial assets in cash and cash equivalent form and use financial markets to: finance highly speculative activity; substitute waning operational profits for financial income in the case of mature companies; and in order for emerging companies to amass large volumes of liquidity to counter operational losses as they establish their productive operations. Moreover, high interest rates in South Africa means that even short-term deposits in monetary institutions can earn a return of 2-3% monthly⁷

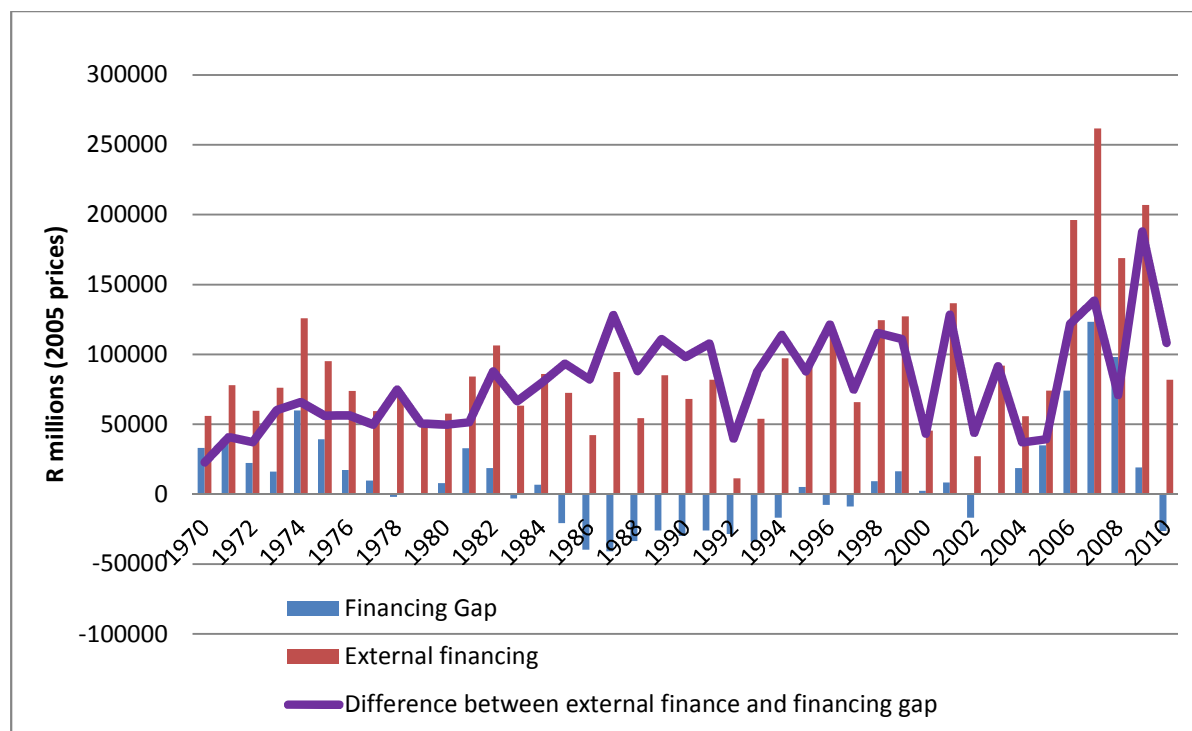
⁷ See for example Standardbank's AccessSave account

Figure 27. Acquisition of financial assets by non-financial corporations by asset type, 1970-2010



(Data source: Flow-of-funds tables, SARb 2011)

Figure 28. Annual financing gap, external financing and the difference between the two for non-financial corporations, 1970-2010



(Data source: Flow-of-funds tables, SARb 2011)

The period since 1994 has also seen non-financial corporations moving from their positions of net lenders to net borrowers for all years except for 1996, 1997 and 2002 suggesting that increased acquisition of financial assets has been financed through the expansion of credit. We find further evidence that increased external borrowing by non-financial corporations to finance the acquisition of financial assets when we examine the evolution of the financing gap⁸ for non-financial corporations and their external financing⁹ (figure 28). The difference between the financing gap and external financing has fluctuated around a relatively stable mean from the mid-1980s until the mid-2000s when this difference began to follow a positive trend until 2010. Between 2004 and 2008, bank credit dominated the liabilities side of the non-financial sector balance sheet, coinciding with an increase in the difference between the financing gap and external financing for non-financial corporations (figure 28). Moreover, there has been a shift in the composition of financial liabilities held by non-financial corporations with an expansion of ordinary shares and other short-term liabilities from 1994 (figure 29). Owing to maturity mismatch between assets and liabilities, the short-term nature of liabilities is not conducive to long-term productive investments which drive capital accumulation. Consequently, we have seen the financing of the acquisition of (largely short-term) financial assets rather than fixed capital. The growing indebtedness of firms is also evident from the trend in the ratio of debt to fixed assets for JSE listed non-financial corporations (figure 31).

The financialisation of non-financial corporations in South Africa has had the effect, not only of keeping overall levels of private investment in fixed capital low, but also to reproduce the old apartheid pattern of investment concentrated upon MEC sectors (figure 32). Investment in non-MEC manufacturing has been uneven. Except

⁸ The financing gap is equal to net borrowing which is the difference between net savings and net capital formation.

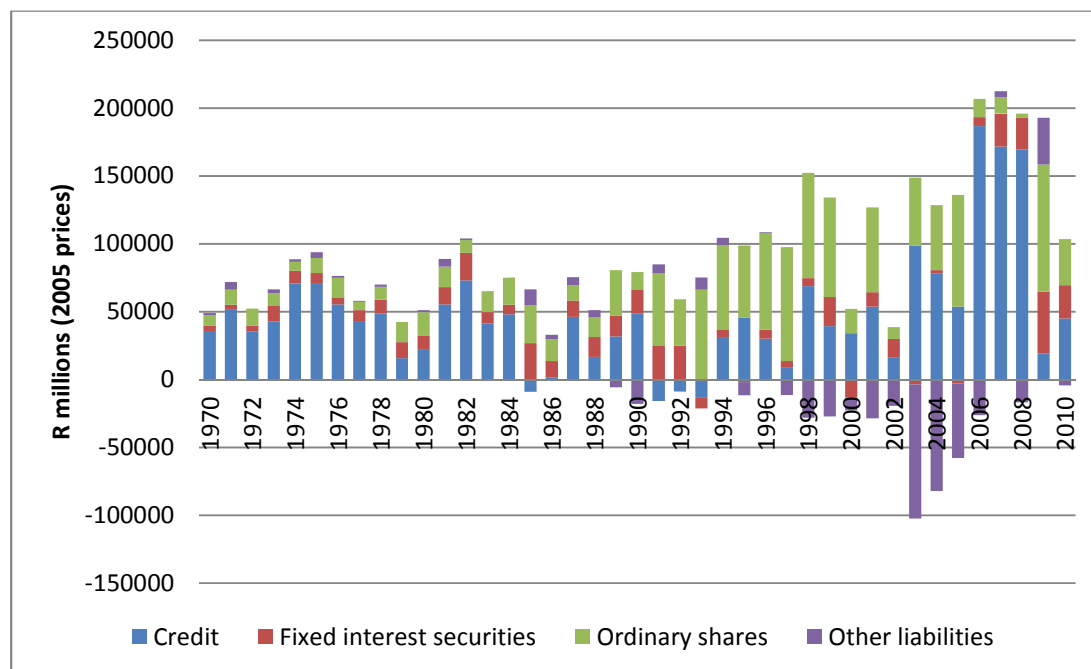
⁹ External financing is equal to the net incurrence of financial liabilities.

for motor vehicles and parts¹⁰ and food and beverages, capital stock in manufacturing sectors has been largely stagnant or in decline. As already discussed, this pattern of investment has serious implications for the nature of employment and unemployment.

In summary, Non-financial corporations in South Africa have been acquiring high levels of financial assets in lieu of productive investment since the 1980s, prior to the period of financialisation, as a result of political and economic uncertainty. Since 1994, fixed investment has recovered somewhat but with no commensurate reduction in financial investment. Non-financial corporations in South Africa use banks and capital markets to increase their financial and speculative positions. Evidence presented suggests that the share-holder preference channel is relatively weak. There is an evident preference by firms for financial investments generating short-term returns.

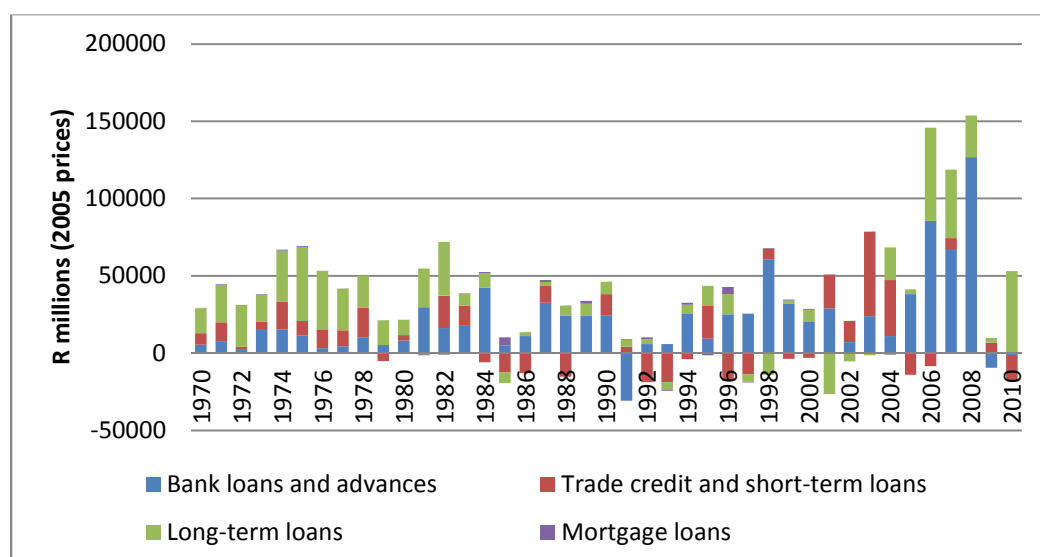
¹⁰ Motor vehicles and parts has benefited through state directed investment as part of the Motor Industry Development Program and the subsequent Automotive Production and Development Program.

Figure 29. Sources of external financing by non-financial corporations. 1970-2010



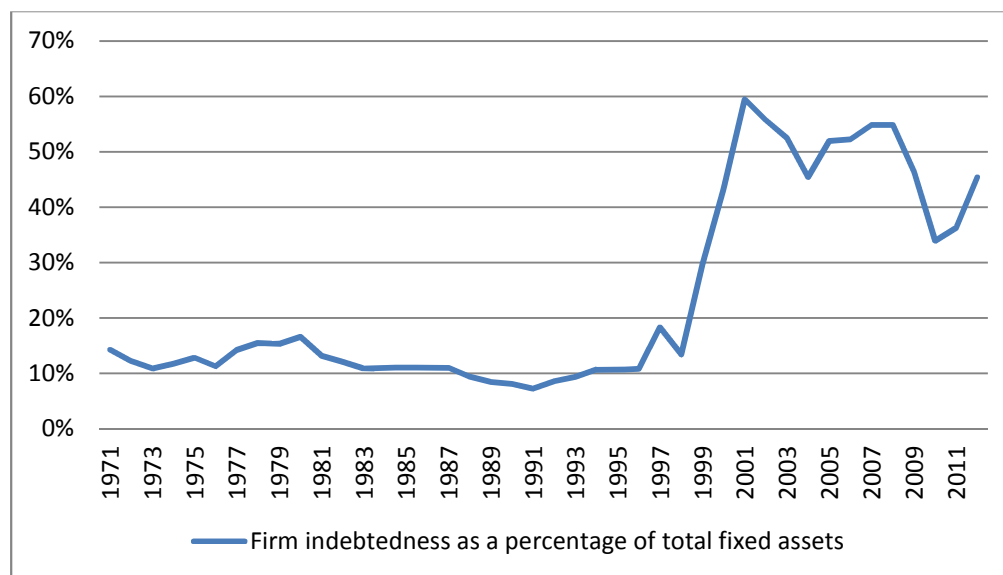
(Data source: Flow-of-funds tables, SARB 2011)

Figure 30. Breakdown of the sources of credit received by non-financial corporations, 1970-2010



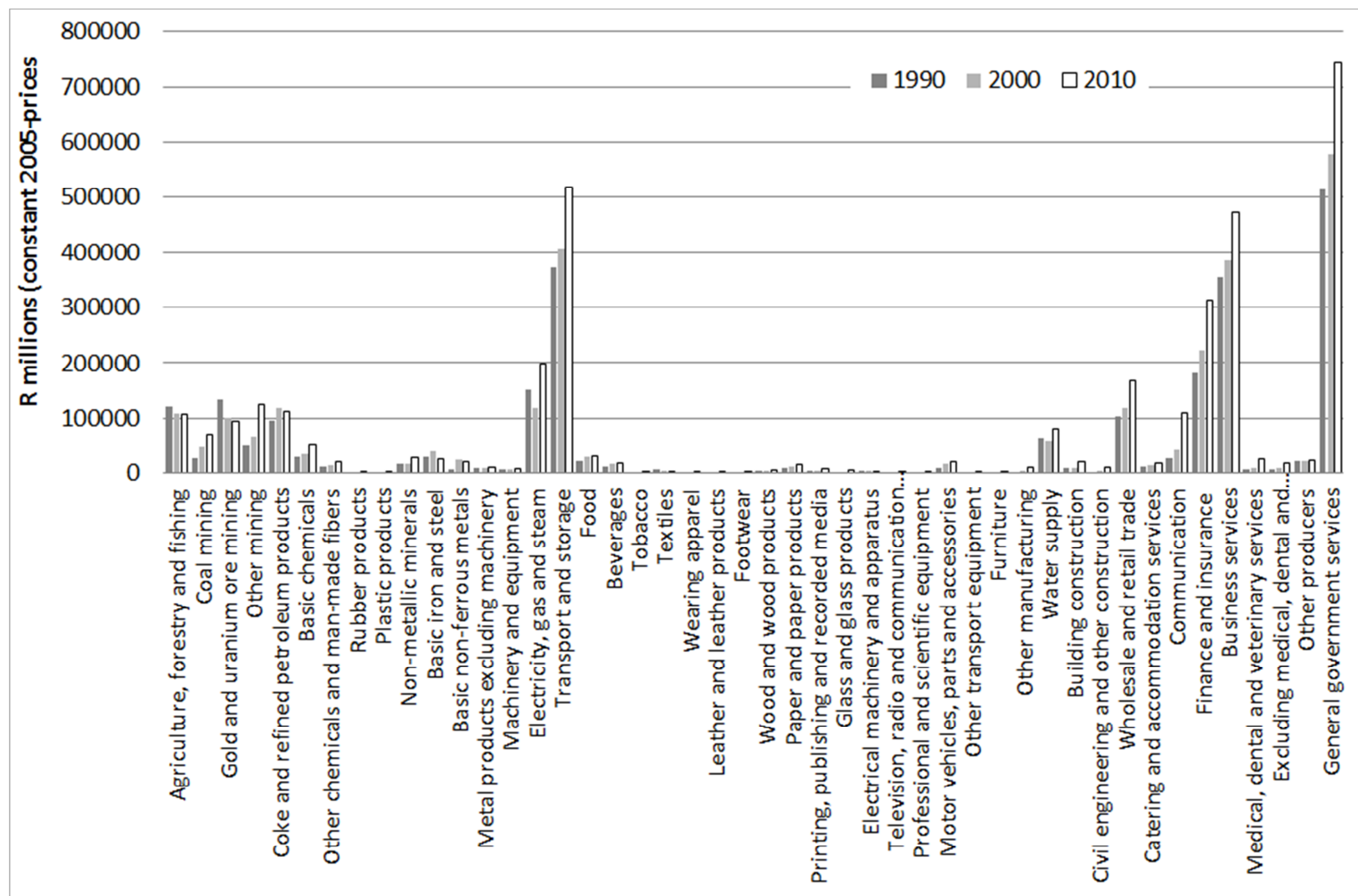
(Data source: Flow-of-funds tables, SARB 2011)

Figure 31. Firm indebtedness as a percentage of total fixed assets for non-financial corporations listed on the JSE, 1971-2012



(Data source, McGregor's BFA database 2014)

Figure 32. Distribution of capital stock across sectors

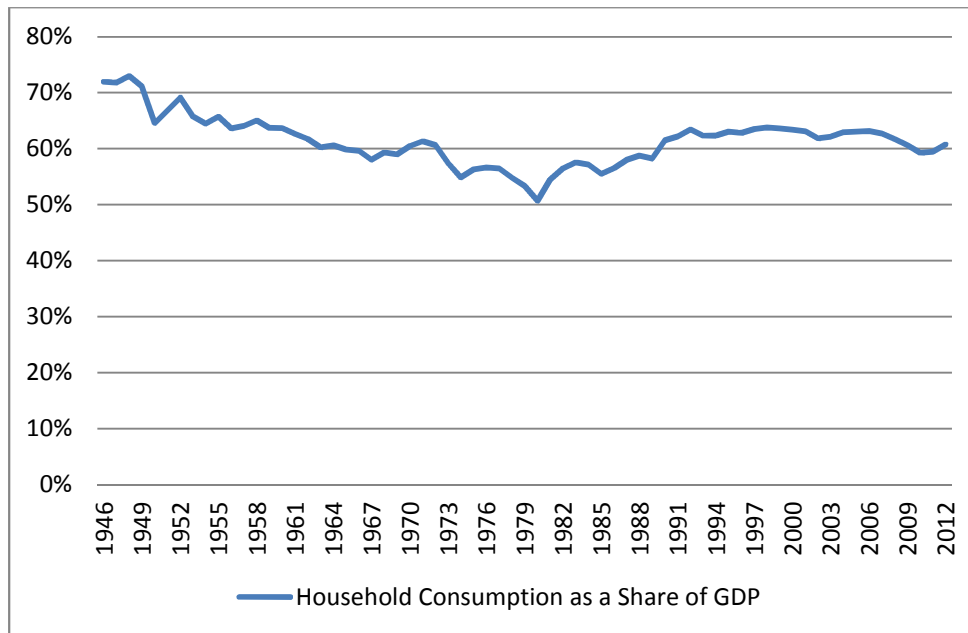


(Data source: SASSID 2011)

II.3 Financialisation and consumption

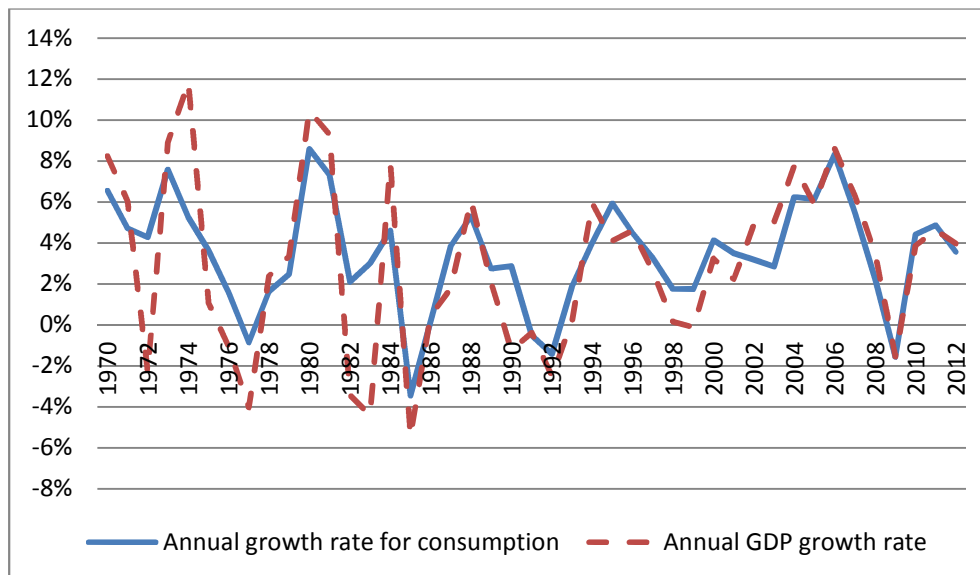
Figure 33 shows the trajectory of household consumption as a share of GDP from 1946 to 2012. Consumption as a share of GDP fell throughout the apartheid period until 1980 when the trend turned positive until the early 1990s when consumption as a percentage of GDP stabilises at around 64 per cent. As already mentioned above, the 1980s until the early 1990s was a particularly tumultuous period in South Africa's recent history, marked by political, social and economic upheavals. The period was peppered by recessions driven by contractions in investment and exports. From the 1990s growth rates in both GDP and consumption recover with GDP and consumption growing at similar annual rates. The dip in 2009 reveals that consumption was affected negatively by the recession that arose out of the global financial crisis. As in the evolution of the ratio of consumption to GDP in the United States that increased from the 1990s as consumption increased in importance as a driver of GDP growth (Stockhammer 2010), the process of debt driven consumption in South Africa did result in an increasing role of consumption in GDP growth, especially after the mid-2002s (figure 34). The growth contribution to GDP of domestic consumption was on average of 3.1 per cent between 2000 and 2007 compared with 1.4 per cent between 1990 and 1999 and 1.8 per cent in the decade before that. Between 2000 and 2007, domestic consumption was the strongest driver of growth year on year (see figure 1). As shall be discussed in the next section, high incidences of poverty and high levels of inequality has led to a similar distribution in access to financial markets and instruments. Debt driven consumption in South Africa is concentrated in the relatively wealthy sections of society and have facilitated the increased acquisition of financial assets by some households without an associated fall in consumption.

Figure 33. Household consumption as a share of GDP



(Data source: SARB Quarterly Bulletin 2014)

Figure 34. Annual growth rates in consumption and GDP 1970-2012



(Data source: SARB Quarterly Bulletin 2014)

Financial balances of the private household sector¹¹

The savings and investment behaviour of households has changed profoundly since the 1970s. Figure 35 shows a long-run declining trend in the aggregate propensity of households to save out of disposable income since 1960. Zooming in on the period from 1995 to 2013 (figure 36) we observe that the propensity to save out of disposable income continues to fall in aggregate until 2007 before increasing slowly in subsequent years. Since 2006, the ratio of net savings to disposable income for households has been below zero, representing dissaving, which has occurred as a result of growing indebtedness (increased incurrence of financial liabilities) and not a fall in the acquisition of financial assets by households. Households in aggregate appear to be saving for the future through the acquisition of financial assets, without forgoing current consumption which has been financed by debt.

The share of financial assets to all assets held by households increased year on year from 44% in 1976 to 76% at its peak in 1999 and averaged 70% between 2000 and 2013¹² (figure 37). The composition of financial assets held by households has also shifted (figure 38). While the increase from 1976 to the mid-1990s was driven by the acquisition of pension and long-term insurance products by households, which have continued to make up between 50 and 58 per cent of household financial assets into the present period, the period since 1994 has seen increases in the share of other financial assets to total financial assets at the expense of assets deposited in banks which might reflect increase in the direct holding of stocks and shares by households as well as investment in unit-trusts (the latter becoming more significant since 2007). As already mentioned above, South Africa's financial sector has seen considerable reforms since the 1980s. These reforms have facilitated the

¹¹ Household income data from SARB includes both Households and non-profit institutions serving households.

¹² The slight reduction in the share of financial to total assets held by households from 2000 can be explained by the increase in the share of the value of housing assets inflated by credit expansion after 1999 as explained earlier.

expansion of flows between capital markets and households in particular. In the early 1980s, government prescribed asset ratios for pension funds and pensions invested with insurance companies were relaxed. Further, restrictions for official pension funds to invest only in public fixed interest securities were lifted in 1990. This made it possible for these companies to expand investments in equities as can be seen in figures 39 and 40. More recently, in 2007, restrictions against selling investment products fell away resulting in the growth in number of private investment funds and savings products, namely unit trusts, as well as the entry into savings by established insurance companies. (Ashman, Mohamed & Newman 2013)

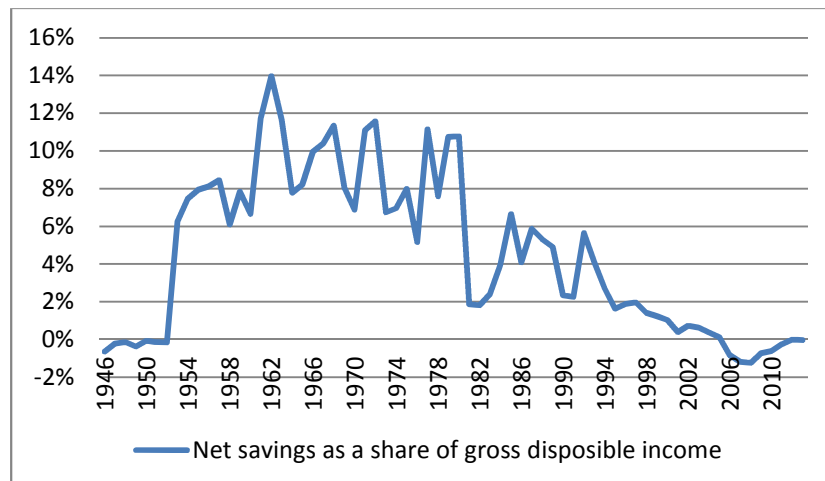
While quantitative credit controls were removed in the early 1980s, the expansion of credit really took off in the early 1990s when substantial portfolio inflows, attracted by high interest rates resulting from neoliberal macroeconomic policy reforms, expanded the supply of funds for credit extension (figure 41)¹³. Put simply, the features of the financial sector provided both the supply of finance, through expanded credit, as well as the supply of financial instruments and assets, to which current and future savings of both households and firms can be diverted. (Ashman, Mohamed & Newman 2013)

Annual credit extension to households has roughly followed the ebb and flow of total credit extension that has been increasing since the early 1990s. Since 2002, in the wake of the dot-com crash, annual credit extension to households increased as a percentage of GDP, levelling out at around 40 per cent of GDP since 2009. Households receive around 50% of total credit extended to the private sector each year (figure 41). The bulk of credit received by households has been mortgages. Mortgage lending has been increasing as a share of GDP since the early 1990s. From 2003, the expansion of mortgage lending as a share of GDP accelerated, following the trend of foreign portfolio inflows received by the banking sector (figure 42). The expansion of mortgage lending has fuelled rapid increased in house prices in South

¹³ The role that portfolio inflows play in the overall balance of payments under the prevailing macroeconomic framework will be discussed further in section II.4.

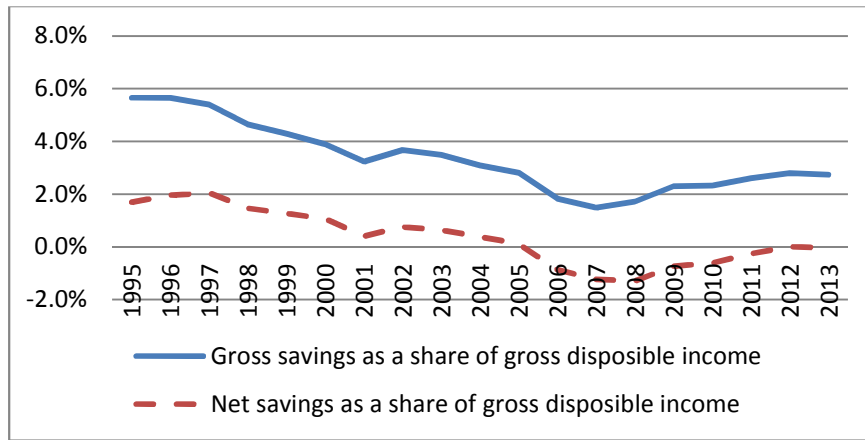
Africa, since the early 2000s and from 2002 in particular (figure 45.). The period from the mid-1980s until the late 1999 had seen relatively stable house prices. House price inflation has been particularly pronounced in the luxury housing segment. The pattern of house price inflation has obvious differential wealth effects between home owners and non-home owners and across different segments of home ownership. House prices have stabilised in the period following the North Atlantic financial crisis that saw a sharp contraction in foreign portfolio inflows to South Africa. Asset price inflation, be it of houses or stocks and shares, has further supported the expansion of consumption credit (figures 46-49)

Figure 35. Net savings by households as a share of gross disposable income, 1946-2012



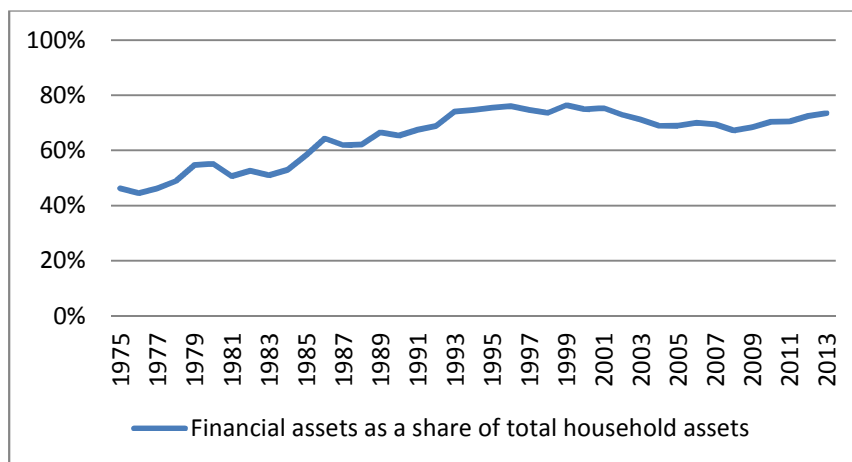
(Data source: SARB Quarterly Bulletin 2014)

Figure 36. Gross and net savings by households as a share of gross disposable income 1995-2013



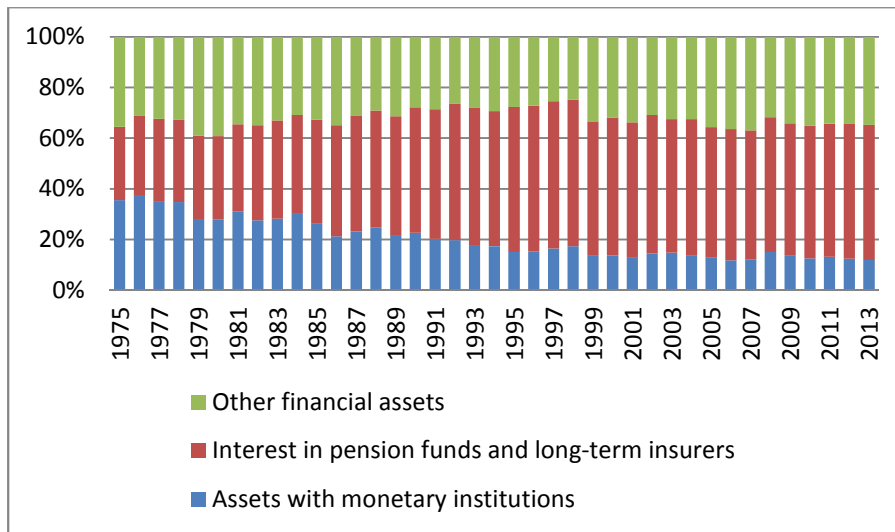
(Data source: SARB Quarterly Bulletin 2014)

Figure 37. Financial assets as a share of total household assets, 1975-2013



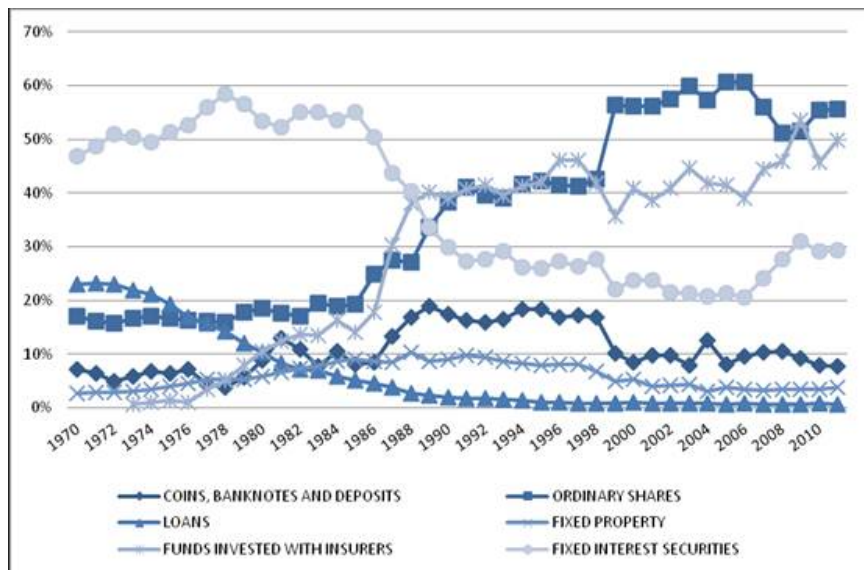
(Data source: SARB Quarterly Bulletin 2014)

Figure 38. Composition of household financial assets, 1975-2013



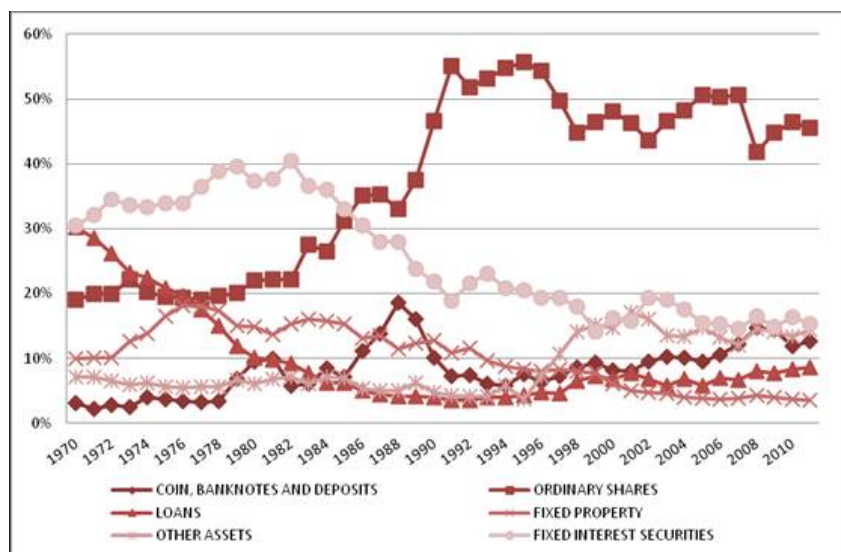
(Data source: SARB Quarterly Bulletin 2014)

Figure 39 Distribution of assets held by private self-administered pension and provident funds



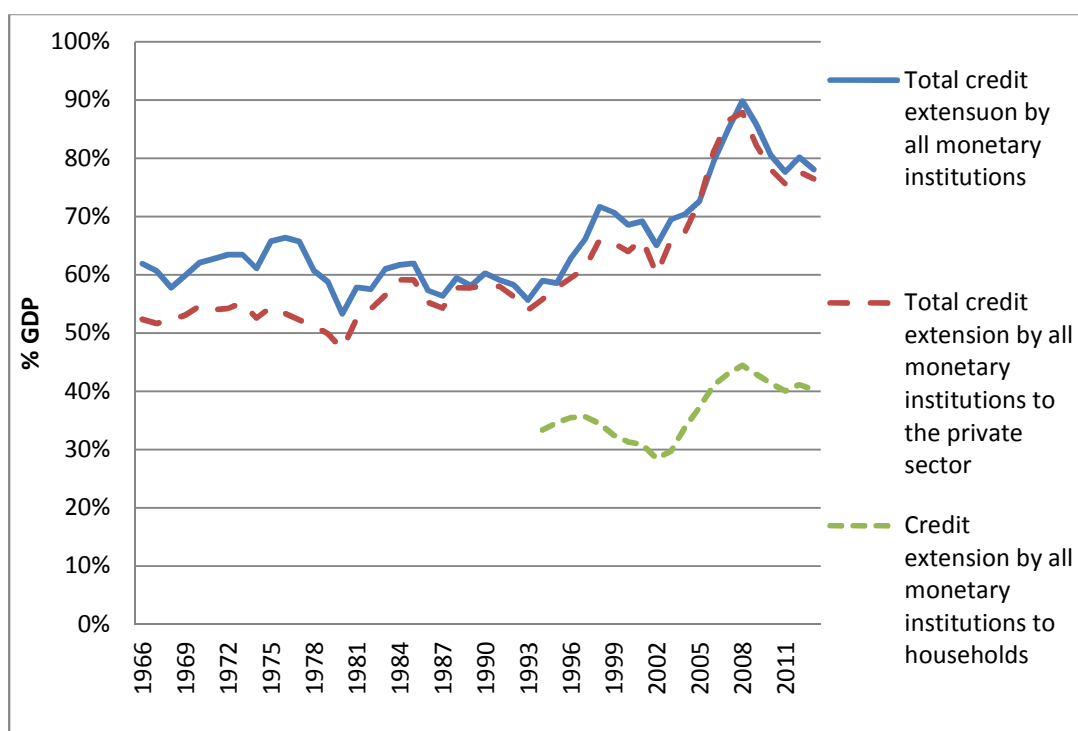
(Data source: SARB Quarterly Bulletin 2012)

Figure 40. Distribution of assets held by long-term insurers



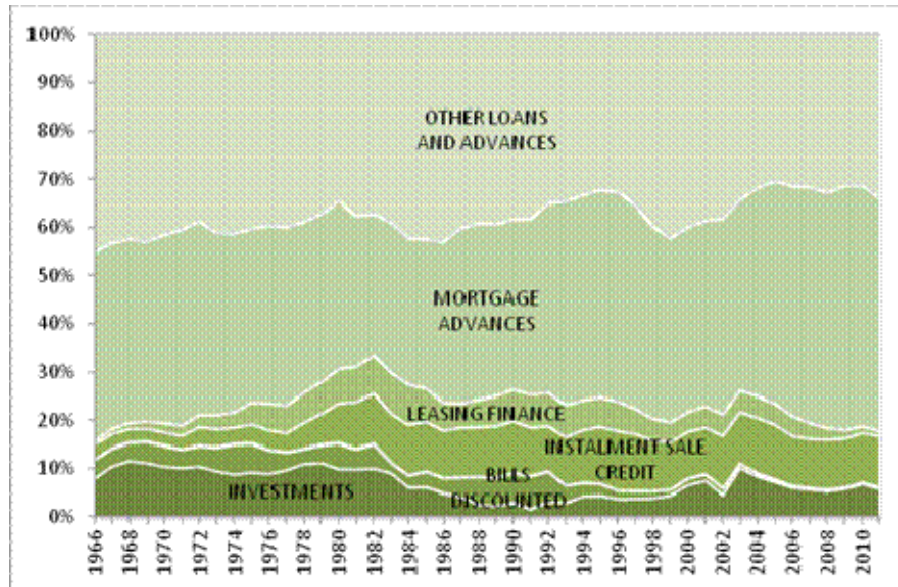
(Data source: SARB Quarterly Bulletin 2012)

Figure 41. Credit extension by all monetary institutions as a % of GDP, 1966-2012



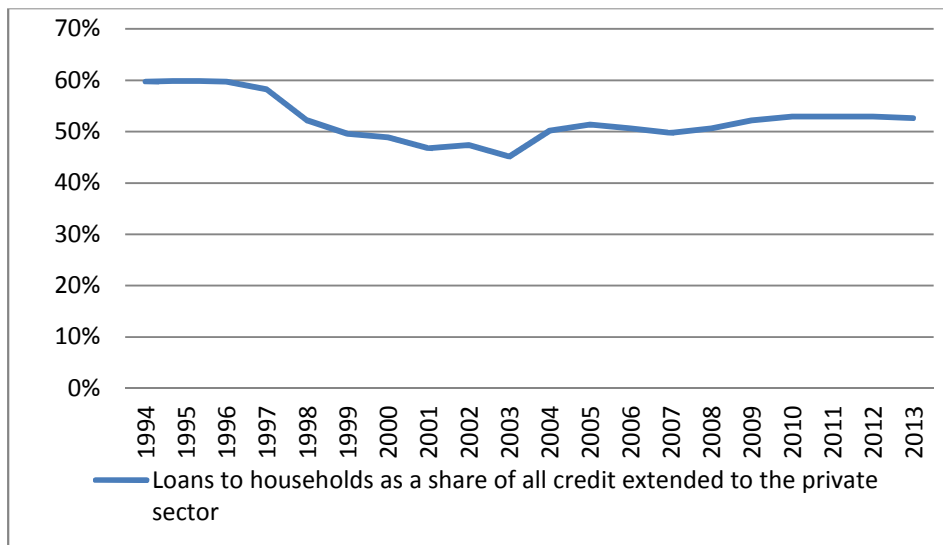
(Data source: SARB Quarterly Bulletin 2014)

Figure 42. Credit extended by all monetary institutions to the domestic private sector by use



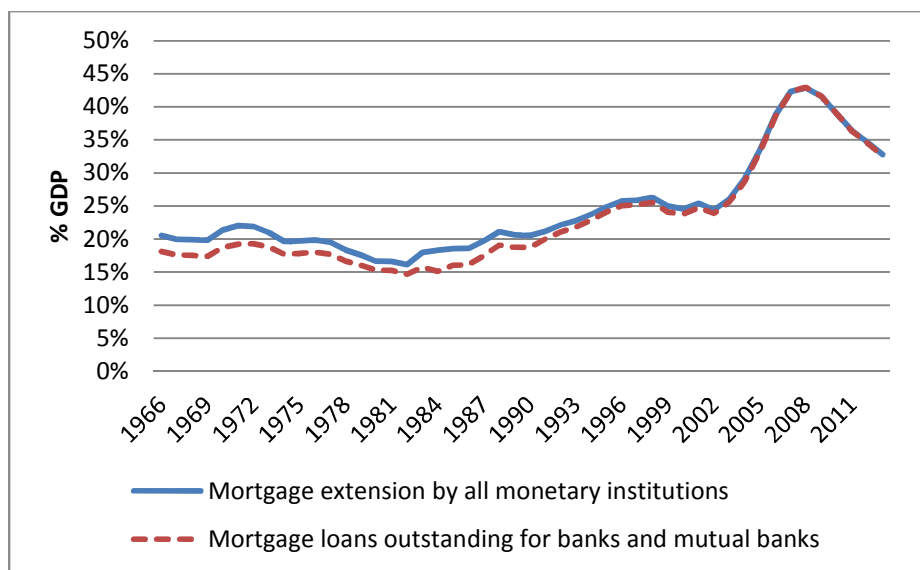
(Data source: SARB 2012)

Figure 43. Loans to households as a percentage of all credit extended to private households



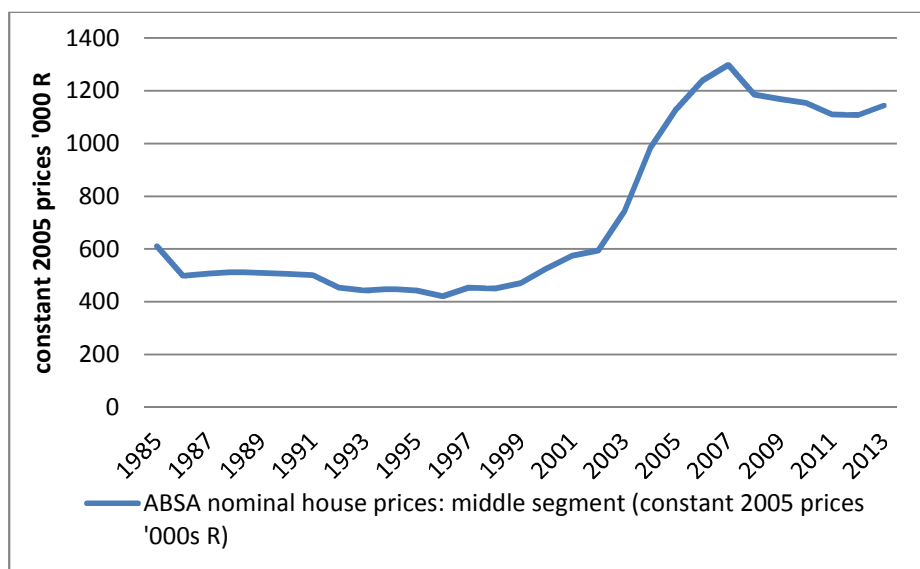
(Data source: SARB Quarterly Bulletin 2014)

Figure 44. Mortgage credit extension and outstanding, 1966-2013



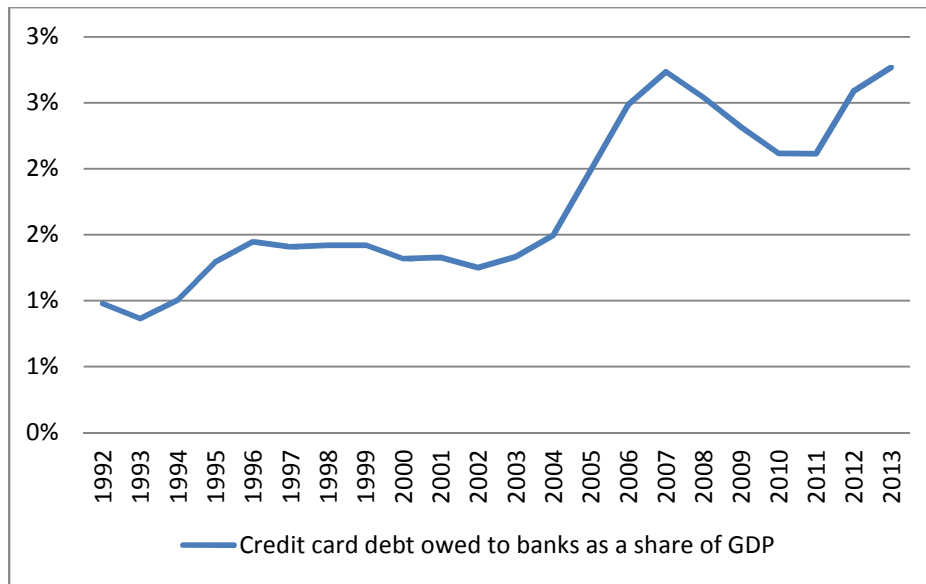
(Data source: SARB Quarterly Bulletin 2014)

Figure 45. ABSA nominal house prices: middle segment



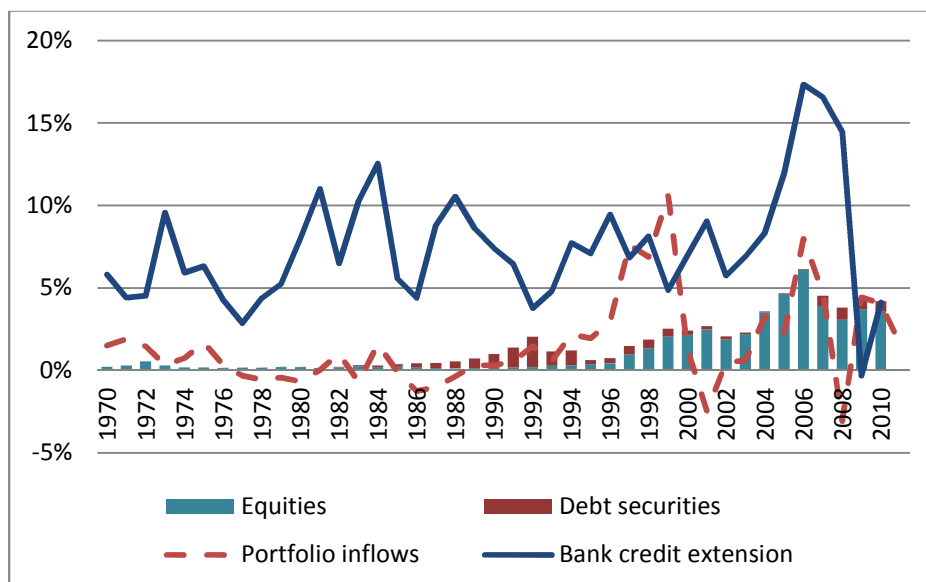
(Data source Quantec 2014)

Figure 46. Credit card debt owed to banks as a share of GDP



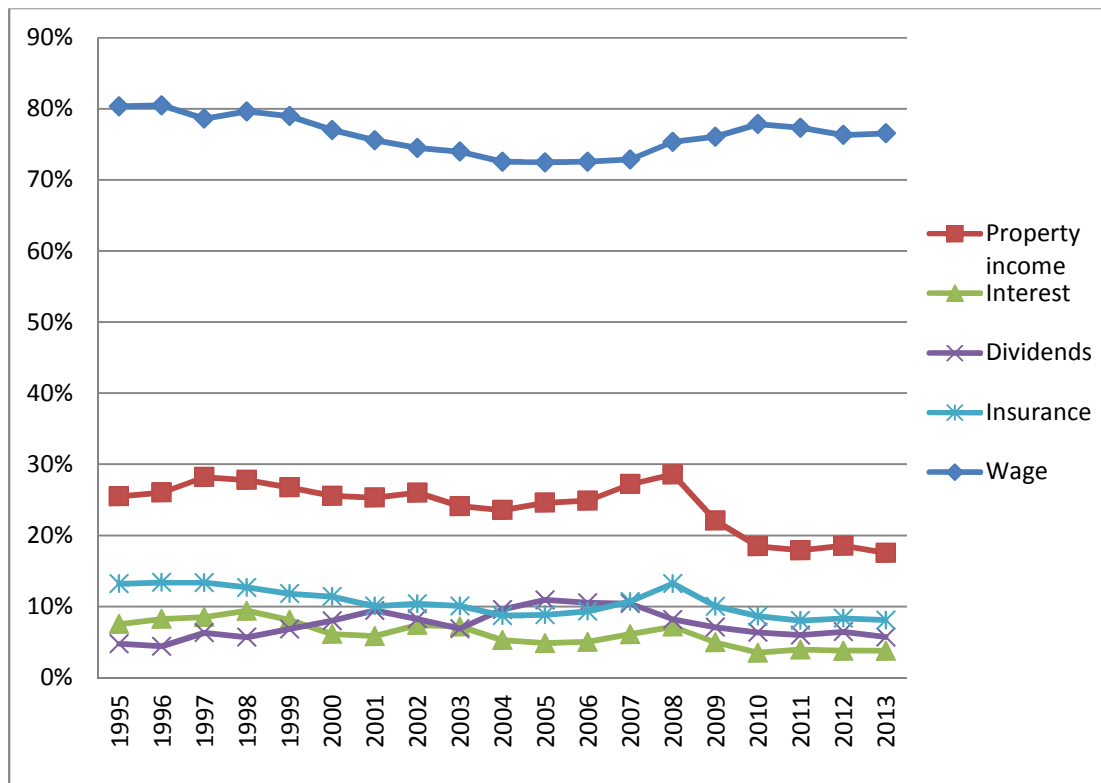
(Data source: SARB Quarterly Bulletin 2014)

Figure 47. Banking sector foreign portfolio liabilities, portfolio inflows to South Africa and annual extension of bank credit.



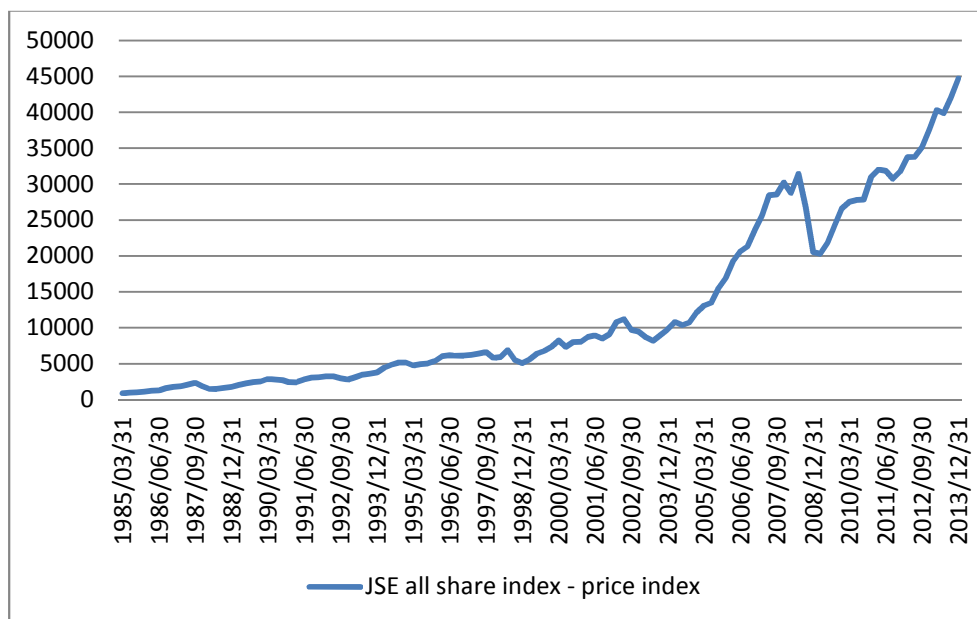
(Data source: SARB Quarterly Bulletin 2014)

Figure 48. Trends in selected components income as a percentage of disposable income, 1995-2013



(Data source: SARB Quarterly Bulletin 2014)

Figure 49. JSE all share index, 1985-2013



(Data source Quantec 2014)

Financial sector reforms together with high volumes of portfolio capital inflows have together fuelled an expansion of credit to households in the form of mortgage and consumption credit which have in turn affected the composition of sources of disposable income. Consumption credit allowed households in aggregate to expand their acquisition of financial assets without forgoing current consumption. The period from 1995 to 2007 saw a fall in the share of wages to household disposable income that resulted in the growing significance of property income. The post financial crisis period has seen wages increase in importance as a source of household income although one would expect non-wage incomes to increase in importance with the recovery of equity prices and credit extension since households have not reduced their holdings of financial assets (the annual acquisition of financial assets by households has remained positive throughout the crisis period).

So far, only aggregate trends in household savings and investment behaviour have been considered. It goes without saying that aggregate categories will obscure the diversity across its constituents. This is particularly striking in South Africa owing pervasive and worsening inequalities as discussed above in section II.1. It has already been mentioned that amongst the components of assets and debts, financial asset are the most unequally distributed. The top decile in the wealth distribution own 85 percent of all assets and the top 5 percent hold 75 percent (Finn, Leibbrandt & Levinsohn 2012). Thus the changes we have seen at the aggregate level largely reflect the experiences of the wealthy minority. It is only the relatively wealthy that can put 5-10% of their disposable income into the acquisition of financial assets through pension, insurance and savings plans. Only the few at the very top of the wealth distribution directly hold equities (figure 20 in section II.1).

Financialisation has led to changes in the savings and investment behaviour of the 25% of households at the tops of the income and wealth distributions. For these households, future income and consumption have become highly integrated with

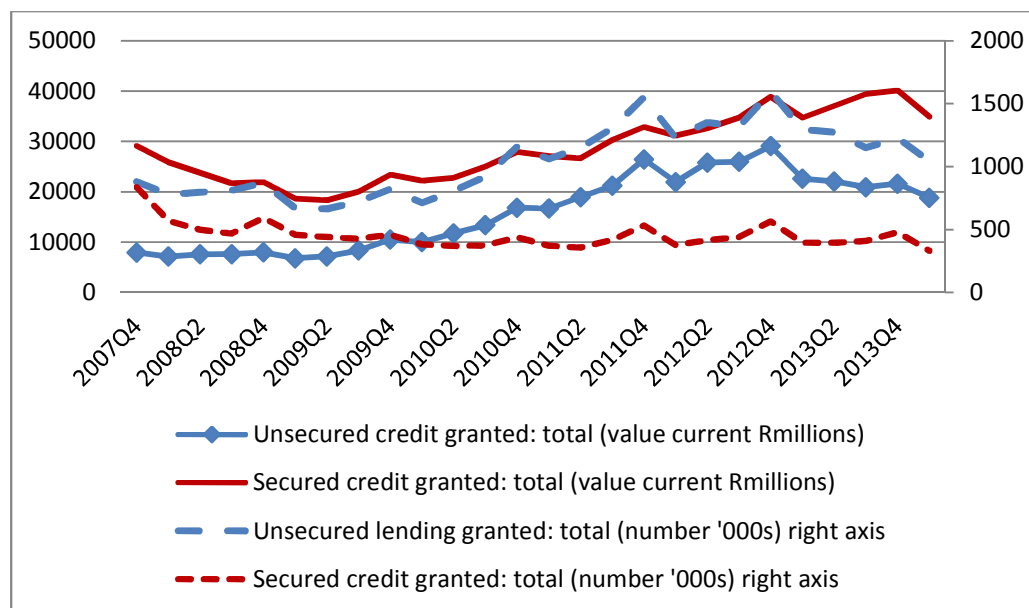
capital markets as they increasingly depend upon dividend and interest payments and stock prices. This, together with the lack of access to financial assets and credit for the majority has profound implications on income and wealth inequality. (Ashman, Mohamed & Newman 2013)

The project of 'financial inclusion' has also seen increasing indebtedness at the lower deciles of the income distribution. Figures 50 - 54 present recent data from the National Credit Regulator on the value and numbers of loans granted per quarter from the fourth quarter of 2007 until quarter one of 2014. Figure 49 suggests that the global financial crisis may have had the effect of temporarily reducing the number and overall value of secured loans but by the middle of 2009 the number of secured loans granted recovered and fluctuated around 500 loans per quarter until the end of 2013. The increase in the overall value of secured loans over the same period implies that individual loan values have been increasing on average. This makes sense as asset price inflation supports the increase in secured borrowing. It is therefore no surprise that the lion's share of secured lending is to higher income groups (R10 100 – R15 000).

Both the numbers and overall value of unsecured lending have been increasing over the period considered. Unlike secured lending, there was no drop in the number of unsecured loans over the crisis period and brief recession. There was, however, a drop in the total value suggesting a reduction in individual loan sizes during the post-crisis recession. Between the last quarter of 2007 and the end of 2009, the lowest income group (those earning between R0 and R1500 per month) received around 45% of the total number of unsecured loans granted. The importance of credit to support basic consumption for the population at the lowest end of the income distribution will be understated in the figures presented here since, well documented, increase in informal lines of credit are not included. While the share of unsecured loans granted to low income borrowers has fallen since 2009 there has not been a fall in their absolute number. Rather, there has been an increase in unsecured lending to higher income groups in the form of store and credit cards.

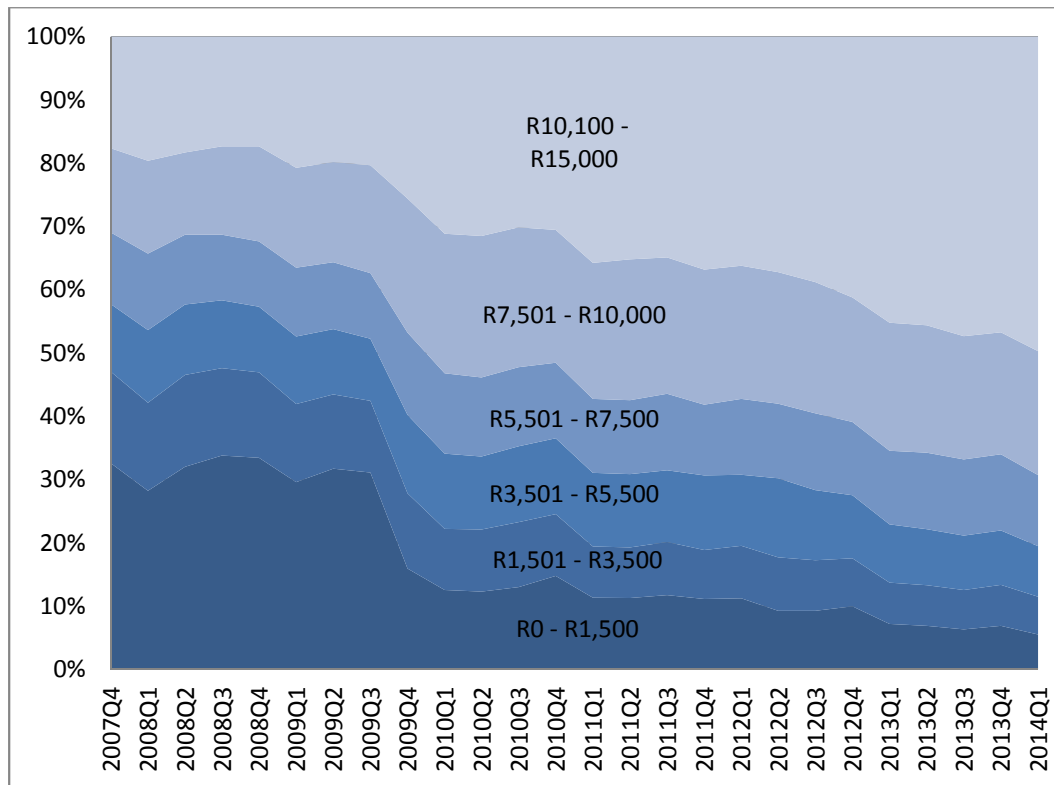
The growth of credit driven consumption, or more accurately consumption made possible by the expansion of credit, has been a feature of all income groups. The nature and form of the relationship of increasing indebtedness and consumption differ significantly across income groups. For the richest increased indebtedness reflects the allocation of an increasing share of income to financial investments (in particular via private pension and insurance funds). For the poorest, access to credit has allowed them to reproduce themselves in the context of low wages, precarious employment relations and high levels of unemployment.

Figure 50. Total secured and unsecured lending granted to those earning between R0 and R15000 per month.



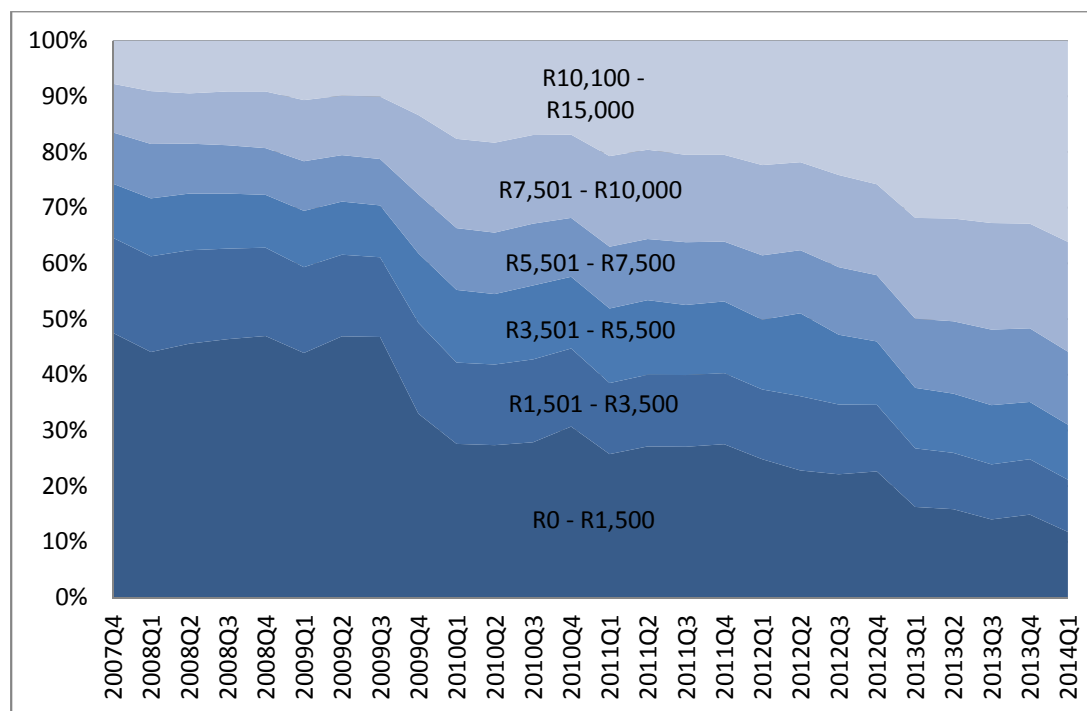
(Data source: National Credit Regulator 2014)

Figure 51. Composition of unsecured loan value granted by income group



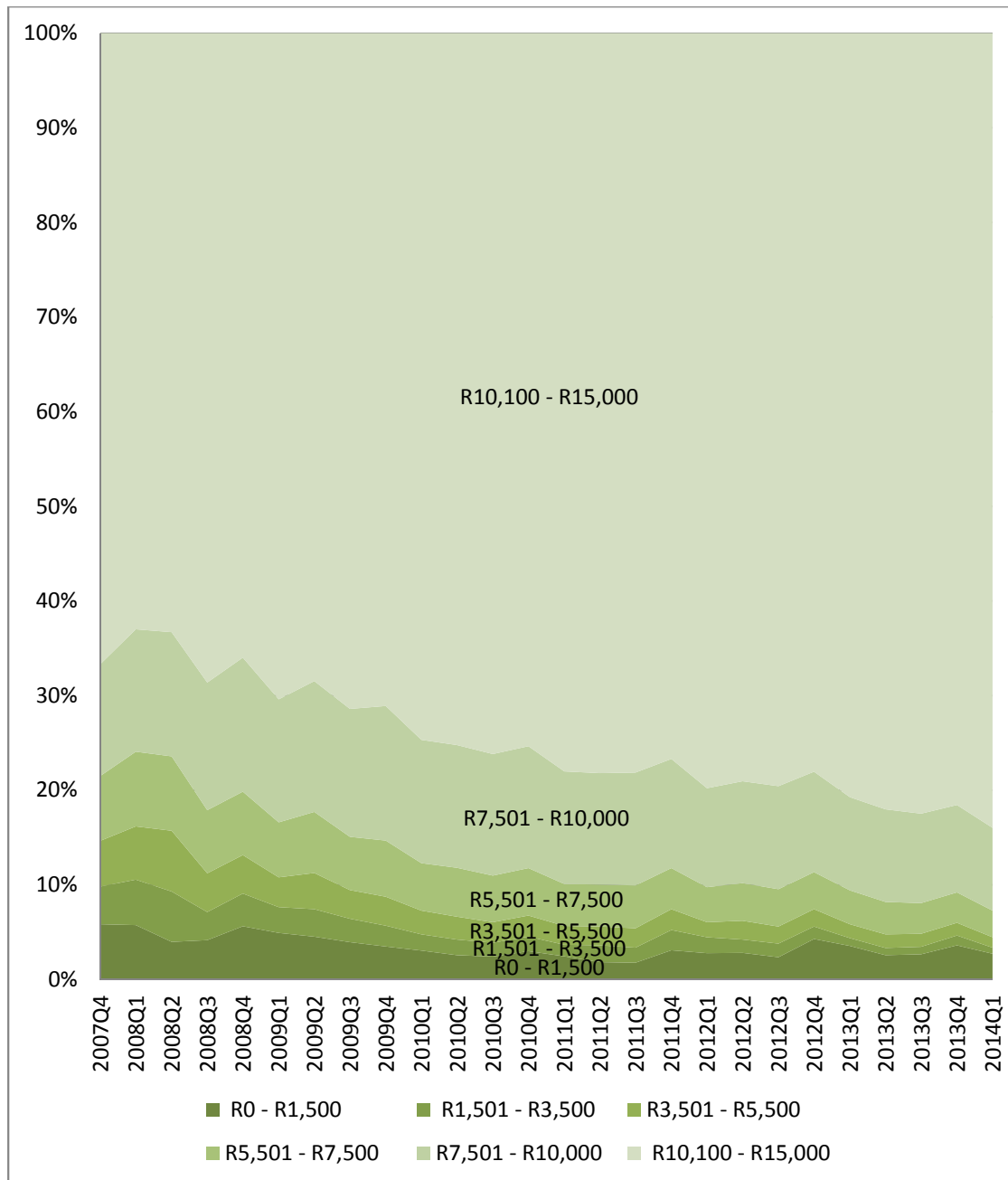
(Data source: National Credit Regulator 2014)

Figure 52. Composition of unsecured loan number granted by income group



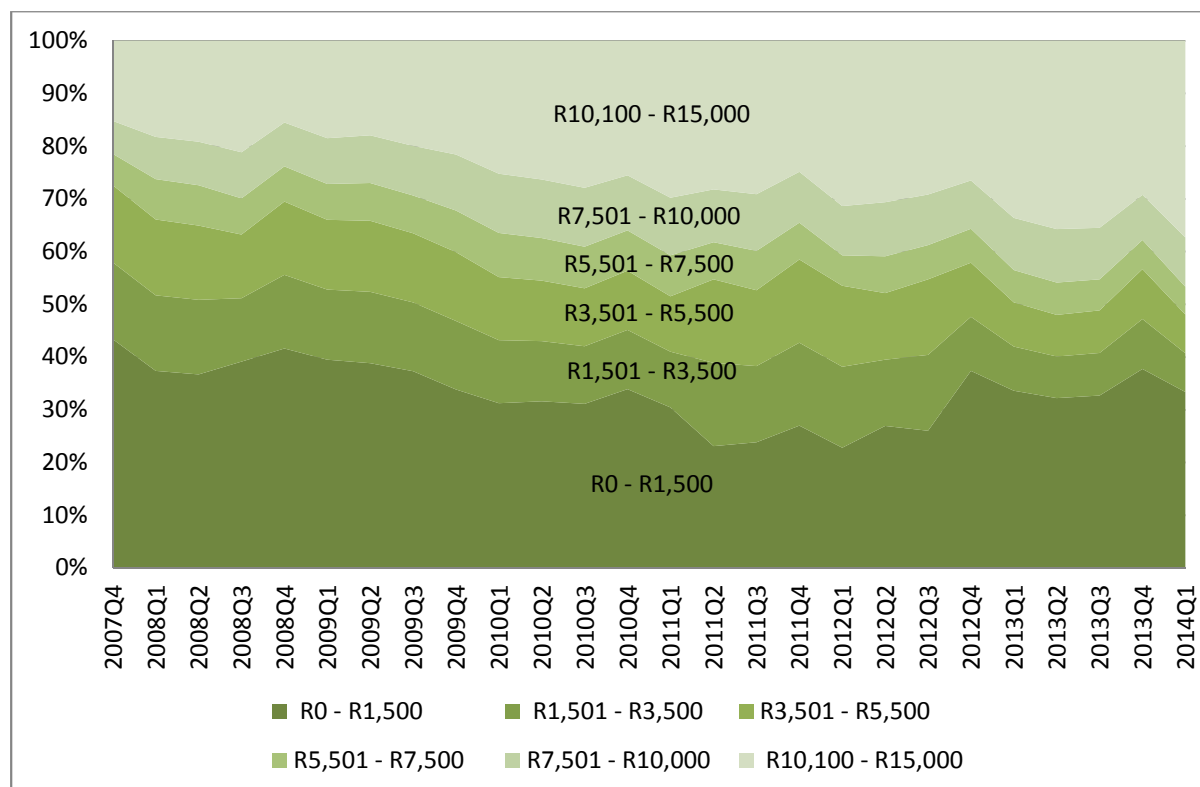
(Data source: National Credit Regulator 2014)

Figure 53. Composition of value of secured credit granted by income group



(Data source: National Credit Regulator 2014)

Figure 54. Composition of numbers of secured credit granted by income group



(Data source: National Credit Regulator 2014)

II.4 Financialisation and the current account

Figure 54 shows the evolution of the balance on the current and capital account. South Africa ran a current account surplus from 1985 until 1993. During this period there was a sustained outflow of capital seeking a safe haven from the political and economic instability and uncertainty that pervaded South Africa. During this time, it was necessary to ensure a surplus on the current account to fund the outflow. Imports were decreased and exports encouraged. Moreover, foreign reserves were also deployed to meet the challenge of this sustained outflow. In addition to official outflows of capital, capital flight has been a constant feature in South Africa's capital flows. Mohamed and Finnoff (2005) estimated that capital flight as percentage of GDP increased from an average of 5.4 per cent a year between 1980 and 1993 to 9.2 per cent between 1994 and 2000. Ashman et al. (2011) calculated that there was a further increase in capital flight as percentage of GDP to 12 per cent on average between 2001 and 2007. The initial years since 1994 saw positive growth rates in both exports and imports, the latter growing more rapidly. Net exports peaked in 2001, following a contraction in imports in 1999 and little growth in 2000. Since then, net exports has been in decline, becoming negative from 2004. Imports have continued to be greater than exports since 2004.

As in the case of many economies (both advanced capitalist and emerging), the relaxing of capital account regulation in South Africa in 1994 has permitted and financed persistent and growing current account deficits. High interest rates in South Africa have attracted substantial short-term inflows as part of an increasing trend in carry-trade from advanced economies where interest rates have been low (figure 58). Exchange controls have been further relaxed in the period 2009-2012 which meant that the contraction in portfolio inflows in the wake of the global financial crisis was brief compared with the effects of the dot-com crash (Table 3).

Throughout the 1980s, the domestic economy maintained a position of net lending (figure 61). With economic liberalisation, an inflow of foreign capital supported a position of net borrowing save for a brief period between 2000 and 2002 as foreign portfolio inflows contracted with the dot-com crash (figure 57 & 59). The post 2002 period saw the rapid recovery of portfolio inflows and an even more dramatic increase in the magnitude of the net borrowing position.

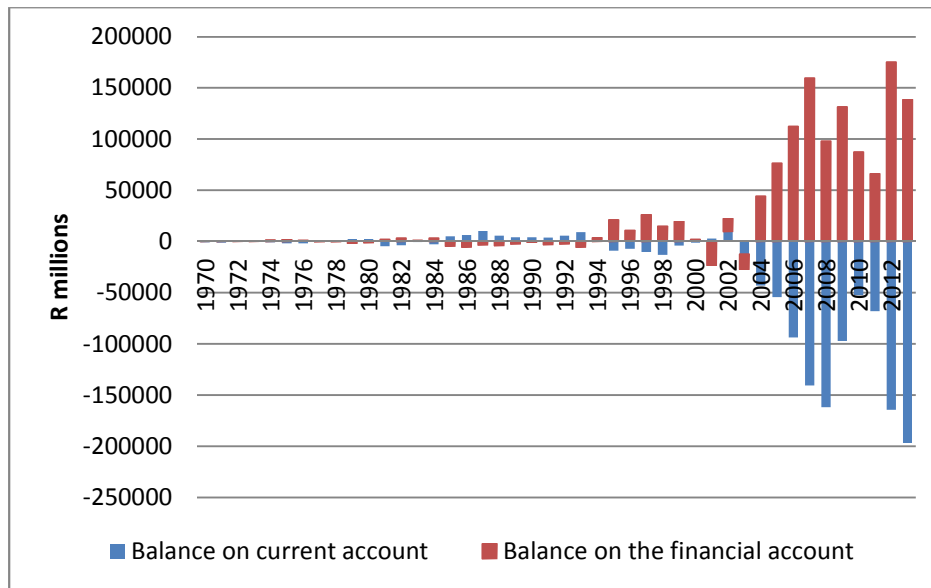
In addition to financing of the current account deficit, the rapid and extensive liberalisation of exchange controls have in essence regularised much of the illegal outflow of capital from the South African Economy which was estimated to be as much as 20% of GDP in 2007 (Ashman et al. 2011)

Table 3. Capital Account Regulations in South Africa, 2009-2011

Announcement Date	Effective Date	Event
27.10.2009	27.10.2009	Limit on foreign capital allowance raised, restrictions on local FDI removed.
01.07.2010	01.07.2010	1961 Exchange Control Regulations amended, new program (VDP) proposed.
24.08.2010	24.08.2010	Future easing of controls announced, including removing tax hurdles for multinationals.
27.10.2010	01.01.2011	Blocked rand transfers relaxed, various other exchange controls relaxed.
14.12.2010	14.12.2010	Prudential foreign investment limits raised, various other controls relaxed further.
25.10.2011	27.10.2011	Future easing of rules announced in budget statement.
25.10.2011	27.10.2011	Cross-border money transfer rules simplified and relaxed.
08.06.2012	08.06.2012	New regulation that extends controls to any intellectual property right

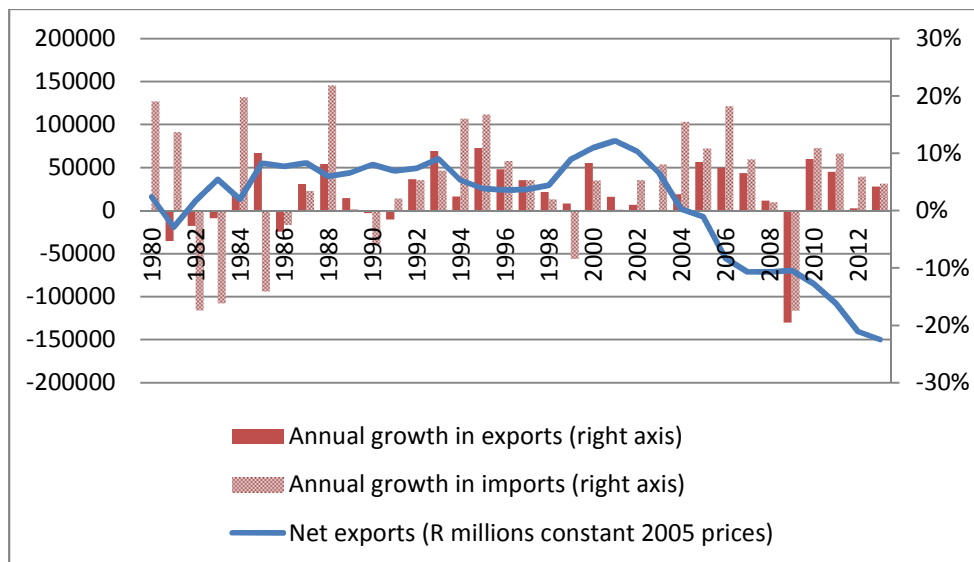
(Taken from Baumann and Gallagher 2014)

Figure 55. Balance on the current and financial accounts, 1970-2013



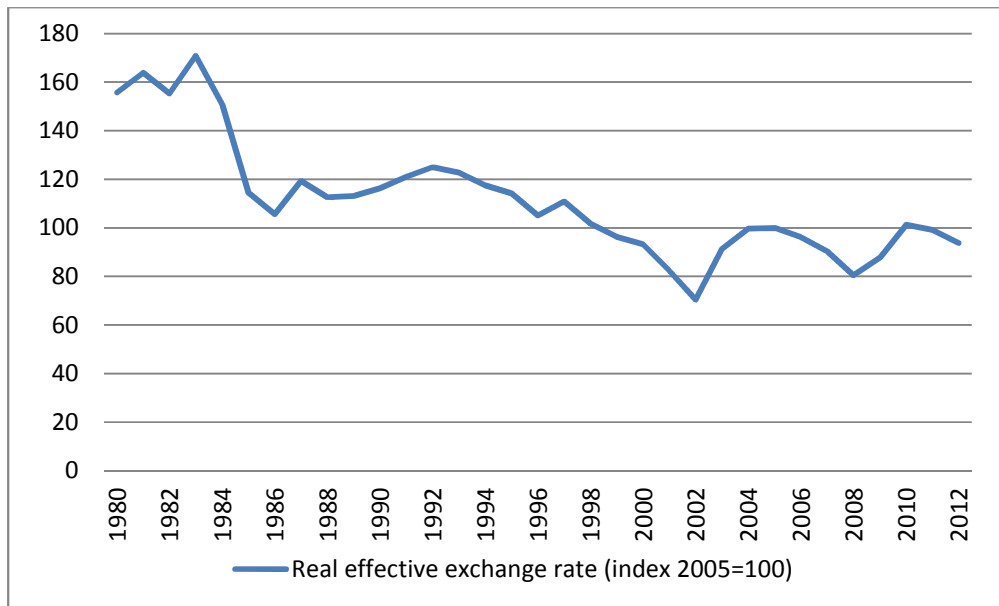
(Data source: SARB Quarterly Bulletin 2014)

Figure 56. Annual rate of growth in exports and imports 1980-2013



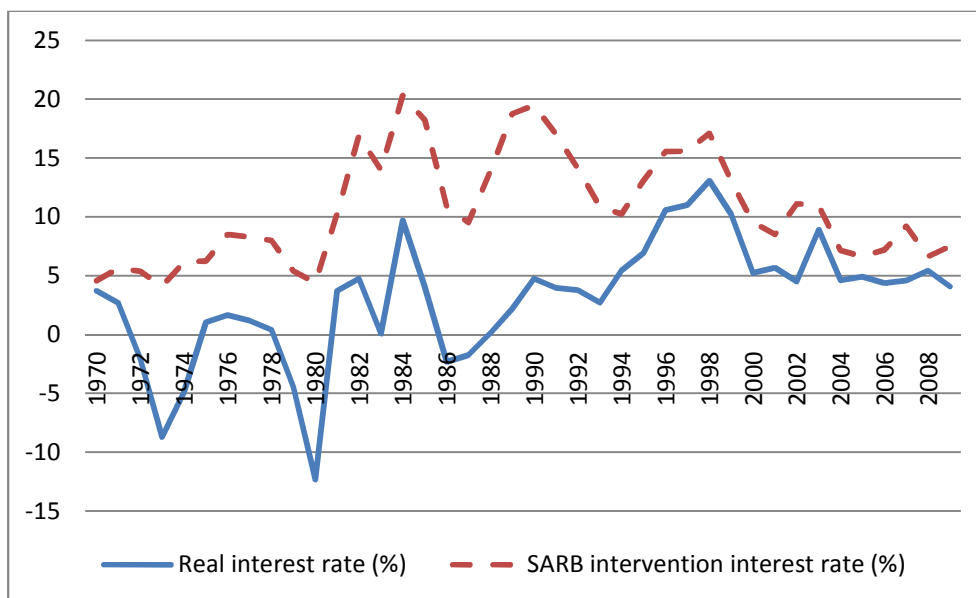
(Data source: SARB Quarterly Bulletin 2014)

Figure 57. Real effective exchange rate at year end 1980-2012 (index 2005=100)



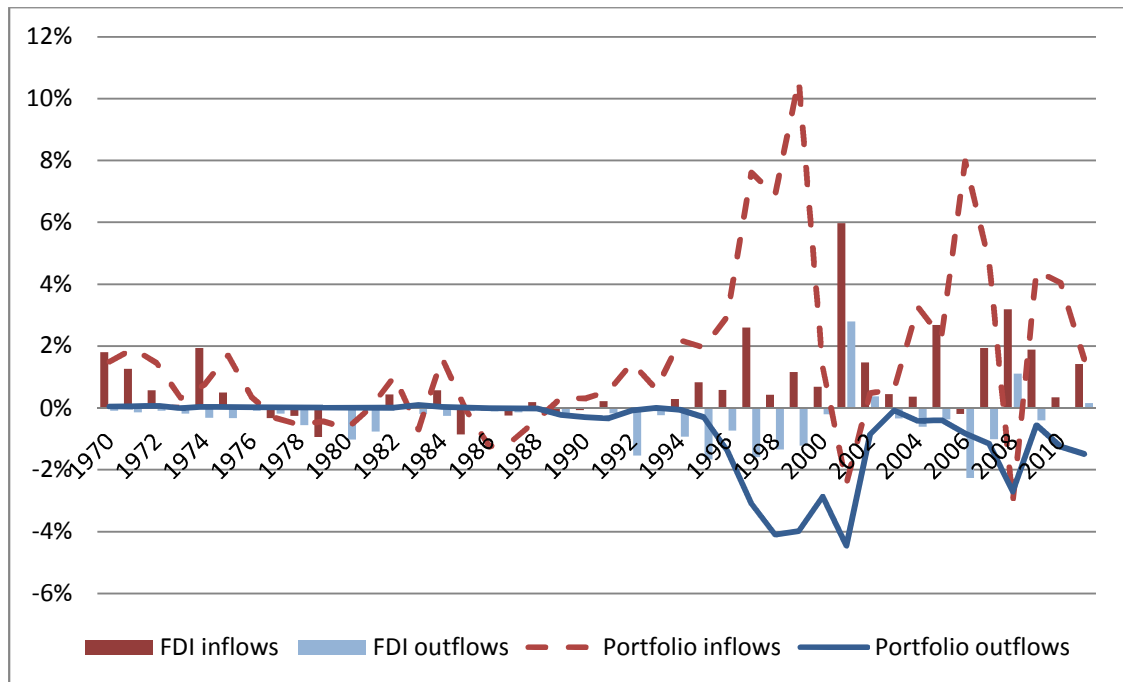
(Data source: World Bank Development Indicators 2014)

Figure 58. Annual average interest rates, 1970-2009



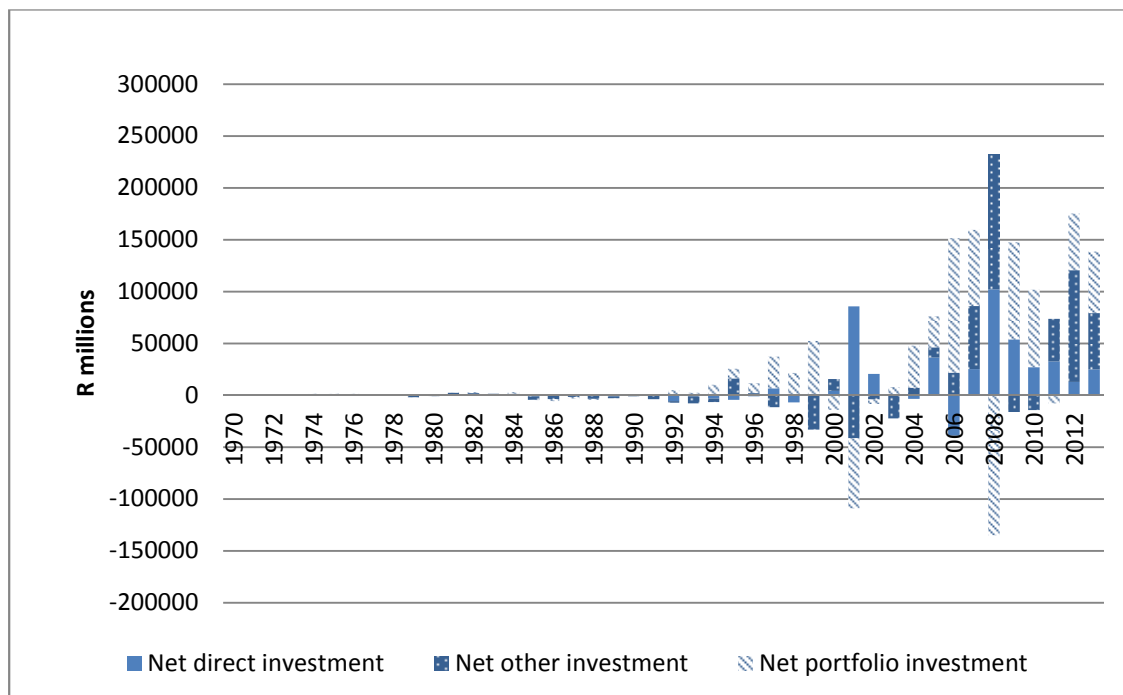
(Data source SARB quarterly Bulletin)

Figure 59. Portfolio and FDI flows as a percentage of GDP



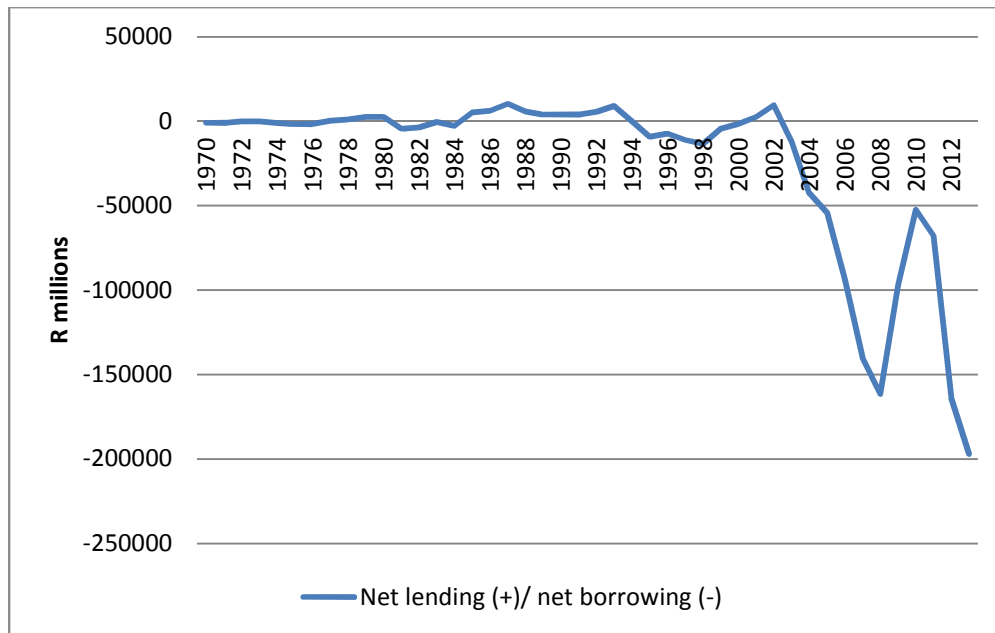
(Data source: SARB Quarterly Bulletin 2014)

Figure 60. Composition of the financial account balance



(Data source: SARB Quarterly Bulletin 2014)

Figure 61. Net lending (+)/net borrowing (-) for the domestic economy



(Data source: SARB Quarterly Bulletin 2014)

III. Financialisation and the economic and financial crisis as the crisis of finance-dominated capitalism

On first glance at the macroeconomic level, the South African economy appears to have weathered the global financial crisis. Contraction of both export value (resulting from the collapse in commodity prices after August 2008) and financial inflows were relatively brief and quickly recovered to pre-crisis levels. Recession was relatively shallow in aggregate terms and lasted for just nine months between the fourth quarter of 2008 and the end of the second quarter of 2009.

South Africa entered the crisis with a very large current account deficit, high interest rates and high inflation. Given its apparent macro vulnerability, one might have expected the South African government to respond with the imposition of capital controls as in South Korea. Rather, South Africa responded with

the further opening up of the current account. (Baumann & Gallagher 2013) This response is entirely consistent with the neoliberal framework that has informed South African macroeconomic policy since 1994.

Macroeconomic policy since the democratic rule has been shaped by the neoliberal macro framework of the ironically named Growth Employment and Redistribution (GEAR) program. GEAR has been likened to a home spun structural adjustment program, focussing on the reduction of government deficit, central bank independence and inflation targeting and liberalisation of the current and capital accounts. The effect of GEAR and regulatory reforms, capital account liberalisation in particular, since has been the overwhelming support of the largely unproductive financial sector to the detriment of the real economy. It was the prevailing macro-conditions and nature of financialisation that shaped South Africa's experience of the global financial crisis.

That the South African economy has emerged from the global financial crisis relatively unscathed has been attributed to its 'sound' macroeconomic policies that included honouring pre-crisis commitments for capital spends related to large infrastructure projects that helped to prop up overall investment levels in spite of a contraction in private sector investment. The further opening up of the capital account and continued high interest rates (that now reflected a higher risk premium) acted to accelerate the recovery of short-term portfolio inflows into the financial sector and in turn the allowed for the expansion of credit. Such an explanation, however obscures the uneven impact of the crisis across the economy. Financialisation in South Africa has created certain vulnerabilities and not others.

As seen above, the financialisation of the South African economy has both involved and created further contradictions and conflict between the financial sector and the real economy with the former winning out in its influence over the pace and form of accumulation and implications for social provision and greater divisions between income groups.

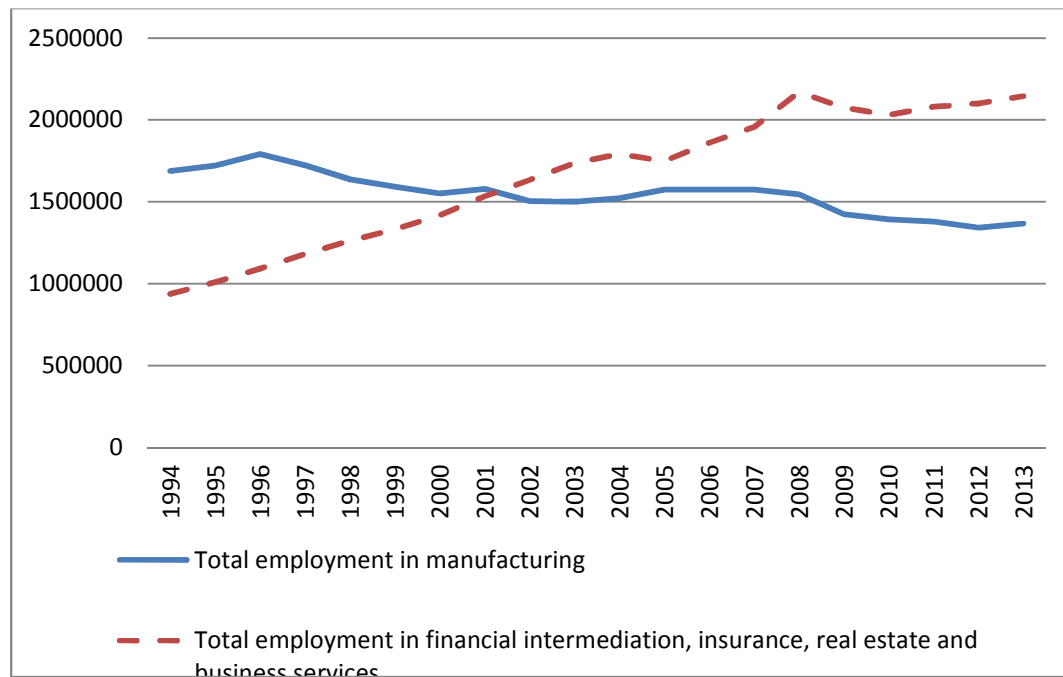
Unlike the financialised economies of the global north, the financial sector hardly took a hit. The banks survived without the need for bailouts and JSE saw some contraction but was largely resilient. Employment in FIRE sectors dipped slightly between 2008 and 2010 but has recovered since. The South African economy has relatively little exposure to US toxic assets. Liberalisation resulted in capital flight and short-term inflows rather than the expansion in investment by domestic actors on US markets thus limiting the exposure of the South African financial sector to toxic US assets. There has been little securitisation of banking sector assets, in 2007, only 3% of mortgages were securitised. As already discussed, financialisation has been fuelled by capital inflows. The reliance on short-term capital inflows saw South Africa enacting further liberalisation in response to the crisis in contrast to the majority of emerging market economies. This has had a negative effect on exchange rate volatility and hence export performance of non-mining sectors.

By contrast, manufacturing took a much harder hit and has failed to recover. As already discussed above, financialisation contributed to the long-run decline in manufacturing in South Africa. Manufacturing output in the first quarter of 2009 declined by 12.8 per cent (compared with a 6.8 per cent decline in GDP overall). Other sectors that saw similar contractions included retail and wholesale trade. 484000 workers lost their jobs in the third quarter of 2009, 150000 of these were from manufacturing. Employment in manufacturing has not recovered since (figure 62).

To summarise, the relatively low levels of securitisation and limited exposure to toxic US assets meant that contagion effects from international financial markets were few. The main transmission mechanisms have been through a contraction of export value from falling commodity prices and a contraction in portfolio inflows that led to a credit squeeze that had a disproportionately negative effect on manufacturing industries that have on the whole failed to recover. The financial sector benefited from further capital account liberalisation that financed a rapid recovery in credit extension that has led to a recovery in consumption and therefore

wholesale and retail sectors. Overall aggregate performance was supported by on-going large infrastructure spends. In a sense, economic policies have dampened the crisis at the macro level but has further cemented the process of financialisation and its implications for domestic investment and inequality.

Figure 62. Total number of employees (formal and informal) in manufacturing and FIRE sectors, 1994-2013



(Data source: SASSID 2014)

IV. Summary and conclusions

This report has presented some broad trends in the evolution of the South African economy in relation to the nature and effects of its financialisation. The form that financialisation has taken in South Africa is conditioned upon the historical development of finance and industry during the period of apartheid and shaped by the macroeconomic policies of the post-liberation era. In this way, the long-run development trajectory of South Africa does not conform to one of the four dominant types: (a) debt-driven consumption boom; (b) domestic demand-led; (c) weakly

export-led; or (d) export-led mercantilist). Rather, South Africa's growth trajectory is characterised by a combination of these processes that different in relative importance at different times. Growth in the 1960s and 70s were largely driven by domestic investment and consumption. The crisis of the 1980s saw considerable divestment and an overall reduction in investment. The 1990s saw an increase in the importance of exports as a key driver of growth and the period since 2000 has seen consumption lead growth driven by debt and an increasing significance in gross capital formation attached to large infrastructural investment programmes,

Paradoxically, the period of majority rule has seen worsening inequality in the income and wealth distributions. At the top of the income distribution this is driven in part by the increases in income derived from financial assets and asset inflation and the highly unequal distribution of financial assets across income groups. Unemployment is a major factor for income inequality and this has its roots in the structure of the economy and de-industrialisation associated with financialisation. Wage inequality is the main driver of inequality in South Africa. Again, its association with financialisation comes from corporate restructuring associated with financialisation, namely downsizing and outsourcing of non-key functions and increasingly precarious employment standards and high levels of informality that place downward pressures on wages for low-skilled jobs.

Non-financial corporations in South Africa have been acquiring high levels of financial assets in lieu of productive investment since the 1980s, prior to the period of financialisation, as a result of political and economic uncertainty. Since 1994, fixed investment has recovered somewhat but with no commensurate reduction in financial investment. Non-financial corporations in South Africa use banks and capital markets to increase their financial and speculative positions. Evidence presented suggests that the share-holder preference channel is relatively weak. There is an evident preference by firms for financial investments generating short-term returns.

The relationship between financialisation and consumption varies across income groups. In aggregate, consumption as a share of GDP has been relatively stable, fluctuating between 60 and 65 per cent. At the same time, as a share household disposable income has been declining dramatically. At the top of the income distribution these trends can be explained by the substitution of savings for increased financial investment in the provision for future unexpected expenditures and old age and the use of credit to finance current consumption. There has been increasing levels of indebtedness at all levels of the income distribution. At the upper deciles of the income distribution this is related to mortgage and consumption loans. The poor have also increased their reliance on credit for consumption but this has been driven by high levels of unemployment, precarious employment relations and unstable incomes.

South Africa has been running a persistently large current account deficit since the late 1990 which has been financed by massive capital inflows attracted by high domestic interest rates. Capital account liberalisation in South Africa has resulted in capital flight and the expansion of short-term portfolio inflows that have financed short-term credit expansion by the banking sector.

The global financial crisis had the initial effect of a contraction in export value, but more importantly a sharp contraction in portfolio inflows and hence a squeeze on credit that had the immediate impact of contraction in manufacturing and wholesale and retail trade sectors. While further relaxing of capital controls saw rapid recovery in financial flows, manufacturing has not recovered. This has had the effect of shifting the distribution of employment for low and medium skilled workers towards lower paid service sectors. South Africa did not suffer contagion effects owing to its relatively low exposure to toxic US assets and low levels of securitisation.

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Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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Published in Leeds, U.K. on behalf of the FESSUD project.